Lancashire
Insurance Company (UK) Limited

BUILDING OUR FUTURE

Financial statements for the year ended 31 December 2020

Registered in England and Wales number 05747877

Contents

Company details

DIRECTORS

Steve Smart	Chairman and non-executive director
David Horne	Non-executive director
Adrian Colosso	Non-executive director
Samantha Hoe-Richardson	Non-executive director
John Cadman	Chief executive officer
James Flude	Chief underwriting officer
Russell Worsley	Finance director
Steve Yeo	Group head of claims

OFFICER

Louise Byrne	Company secretary

AUDITOR

KPMG LLP
Registered Auditor
15 Canada Square
Canary Wharf
London
E14 5GL

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 29
20 Fenchurch Street
London
EC3M 3BY

Registered number	05747877 (England and Wales)

The Company is a member of the Lancashire Insurance Group (www.lancashiregroup.com).

BUSINESS REVIEW

Commentary on results

For the year ended 31 December 2020 the Company made a loss after tax of $2.9 million driven largely by a series of medium sized risk losses above our usual expectations for attritional losses, compared to a profit after tax of $5.8 million for the previous year. Market conditions have however improved in 2020 and the positive pricing trend is expected to continue.

The Company writes a diversified book of business, mostly on a direct basis in the property, energy, marine and aviation classes. Gross written premiums increased by $14.4 million from $228.6 million for the year ended 31 December 2019 to $243.0 million for the year ended 31 December 2020.

Net retained premiums as a percentage of gross written premiums for the year ended 31 December 2020 is 10.9 per cent, compared to 12.1 per cent for the year ended 31 December 2019, reflecting an increase in the level of reinsurance premiums ceded to third party reinsurers. Net earned premium of $24.4 million for the year ended 31 December 2020 has decreased by $6.8million when compared to $31.2 million for the year ended 31 December 2019, reflecting the earned impact of the increase in ceded reinsurance premiums to third party reinsurers.

The net loss ratio is 77.0 per cent compared to 14.4 per cent for the year ended 31 December 2019. This reflects the impact of a higher level of risk losses in the current accident year. In addition, favourable development in relation to prior years amounted to $19.4 million on a gross basis and $4.2 million net of reinsurance, compared to $50.4 million on a gross basis and $7.4 million net of reinsurance in the year ended 31 December 2019. The prior year amounts included gross favourable development of $25.7 million ($0.9 million favourable net of reinsurance) in relation to the 2016 accident year, which largely related to favourable development on an energy loss.

The net acquisition cost ratio, excluding override commission received on the quota share reinsurance agreement with the Company's affiliate, Lancashire Insurance Company Limited ("LICL"), is 38.1 per cent compared to 28.7 per cent in the previous year, mainly as a result of lower net earned premium than in the previous year.

The gross general and administrative expense ratio for the year ended 31 December 2020 is 13.4 per cent (2019 - 13.0 per cent). The ratio has marginally increased mainly due to the $2.9 million increase in expenses during the year. On a net basis, the expense ratio which takes into account the override commission received under the LICL quota share agreement is 16.0 per cent (2019 - 42.4 per cent) with the decrease in the current year being mainly due to an increase in the level of override commission received from LICL after renegotiating the intercompany quota-share reinsurance treaty, partly offset by the $2.9m increase in expenses as noted above.

Investment income for the year ended 31 December 2020 is $4.3 million (2019 - $5.5 million) and comprises interest income of $4.0 million (2019 - $5.3 million) and net realised gains on fixed interest securities of $0.3 million (2019 - gains of $0.2 million).

The effective tax rate for the year ended 31 December 2020 is 17.1 per cent (2019 - 41.4 per cent). The effective rate for the year ended 31 December 2019 was much higher than the expected rate of 19.0 per cent largely due to permanent expense differences.

Covid 19

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Company or the insurance industry will be and has heightened the inherent uncertainty in the Company's going concern assessment.

As the first lockdown began in March the Company required all LISL employees who provide services to the Company to work from home. The move to remote working was seamless and the workforce quickly adapted to the changed working environment. All LUK's teams contributed to maintaining a high level of performance across the Company and high service standards for both internal and external clients have been maintained.

In response to the COVID-19 pandemic, the Group initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of LUK's loss reserving. The current best estimate gross loss booked relating to COVID-19 is $5 million, $1 million net of reinsurance and reinstatement premiums.

The majority of LUK's policies require physical property damage in order to trigger business interruption coverage. Management have analysed the small number of in-force property D&F contracts which have been written with affirmative wording to include business interruption without a physical damage trigger. These contracts have policy sub-limits which are largely below LUK's attachment and would therefore not, on a stand-alone basis, result in a direct claim to LUK. the Company does not write the following lines of insurance business which have been heavily impacted by the COVID-19 pandemic: travel insurance, trade credit, Directors' and Officers' liability, medical malpractice and long-term life. We have minimal exposure to mortgage business, accident and health and are exposed to a small number of event cancellation contracts.

On 15 January 2021, the UK Supreme Court delivered its judgement on the FCA's business interruption test case. The aim of the test case was to obtain clarity on insurance contract wording and determine whether certain business interruption clauses were triggered by the COVID-19 pandemic. For the insurance industry this means that in certain instances policyholders will now have their COVID-19 related business interruption claims paid where previously these claims may have been denied. It will also impact the reinsurance industry as any additional business interruption claims may be partially covered by reinsurance protection. In light of the UK Supreme Court ruling, the Company has performed a detailed review of the business interruption clauses in its insurance and reinsurance contracts and concluded that there is no material impact on the COVID-19 best estimate loss booked for the year ended 31 December 2020.

Brexit

The transition period, which was agreed as part of the Withdrawal Agreement, for the UK to leave the EU ended on 31 December 2020 and with that the end of 'passporting rights'. The UK and EU agreed to continue talks on the future of the UK's access to the EU financial markets, and vice versa, with the proposal to have a Memorandum of Understanding in place by March 2021.

The Company is a member of the LHL Group, which operates two Lloyd's syndicates via LSL, a Lloyd's managing agent and a 100% owned subsidiary of LHL, and one of these syndicates, Syndicate 3010, has gained approval to write the bulk of LUK's EU business via

Lloyd's Insurance Company, which is authorised in Belgium. A portion of this business would be ceded to LUK through the quota share agreement with Syndicate 3010 as set out in the related party transaction note on page 51. Additionally, the Company's fellow subsidiary LICL, a Bermuda domiciled company, could write some business as Bermuda is a Solvency II equivalent jurisdiction to the EU. Under WTO rules it is also possible that LUK can continue to service some clients based on the individual rules and regulations of specific countries.

With regard to EEA policies written by LUK that incepted before 31 December 2020, these should be able to be "run-off" until their expiry with no material changes being made, although this ultimately depends on the relevant rules and regulations of each individual EEA country. LUK has written to all relevant EU regulators and many advised that they are following EIOPA guidance, which suggested a three-year run off period for risks, however there are variations on the time limits. Where EU regulators advise that policies are unable to be run off or where clients request a change to an insurance company based in the EU, policies will be transferred to LSL via Lloyd's Brussels, where possible.

Outlook

As anticipated, rates were improving in 2020 but the pace of change accelerated following the COVID-19 pandemic and we believe the improving underwriting landscape is sustainable into 2021 and beyond. The outlook for each segment and sub-segment is different but the trend almost across the board is positive.

Risk disclosures

Details of the Company's risk management objectives and policies and exposure to risk are set out in note 2.

Statement by the Directors in performance of their statutory duties in accordance with S172(1) Companies Act 2006 (the "Act")

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its sole member (having regard to the stakeholders and matters set out in s172(1)(a)-(f) of the Act) in the decisions taken during the year ended 31 December 2020.

In line with its annually-approved business plan, and in accordance with its approved strategy, the Company seeks to effectively manage the insurance cycle by underwriting profitable business in the specialty insurance lines in which it operates. Our strategic priorities are that we do not seek top line growth for the sake of it in markets where we do not believe the right opportunities exist, we seek to underwrite our core portfolio profitably through the insurance cycle and look to seize opportunities when they present themselves. We focus on disciplined underwriting with a strong focus on profitability and risk selection. By reducing our risk levels in markets where we consider premiums do not justify the risks presented, and seeking to expand our portfolio where the risk/return metric improves, the Company seeks to create a sustainable business operation for the long term.

We recognise that our responsibility is not only to our parent company and our clients and we strive to be a good employer, a good corporate citizen and a responsible preserver of resources.

Our employees are the lifeblood of the Company and we strive to attract and retain excellent staff. The Company actively seeks to engage with its staff, and to afford them a stable and open workplace. Our staff work on a cross-departmental basis, are provided with regular training and development and management encourages engagement across all areas of the business. The Company promotes the group values(1) set out below, and in the prior year, employees participated in a group-wide staff engagement survey, the feedback for which was positive. The Company recognises that promoting a positive and inclusive culture is an important factor in its continued ability to attract and retain the best talent and continues to explore how it can promote flexible working options and career development opportunities. All permanent staff are eligible to share in the Company's and Group's success through the granting of nil cost RSS awards and participation in the Company's bonus arrangements. To ensure alignment with the Company's values and to effectively monitor individual performance, certain senior managers' remuneration is overseen by the Company's Remuneration Committee.

It is crucial to the Company's long term success that it positively engages with its key stakeholders including clients, brokers, outwards reinsurers and service providers to provide suitable (re)insurance products; the Company's underwriters, claims team and senior management will meet regularly with stakeholders both in the UK and internationally to receive their feedback and insight. Our policies are important to our clients in seeking to protect them and their business from risk events, and when losses do occur we are responsive in order to provide our policyholders with ongoing support and we seek to pay their claims as expeditiously as possible.

The Company also recognises the importance of an open and constructive relationship with government agencies and regulators both in the UK and internationally when it underwrites certain overseas (re)insurance contracts, and to this end the Company has developed a range of internal procedures and processes to establish a robust operating platform to ensure compliance with legal requirements and regulatory rules and standards; and seeks to be be proactive in its provision of accurate information to such agencies and regulators.

The Company is active in supporting the promotion of the interests of the wider London insurance market, and as an example of that the CEO sits on the board of the IUA. A number of other staff also contribute to the operation of IUA and other market fora.

Through the Lancashire Foundation, we make financial contributions and provide human support to a number of good causes in the places we operate around the world. The Company also seeks to help those who are in distress or at a disadvantage, through continued support of local initiatives and activities, volunteering days and mentoring opportunities.

The Company is a wholly owned subsidiary of a Group that reports against the United Nations Environment Programme Finance Initiative (I) Principles for Sustainable Insurance, and is committed to managing the environmental impacts of all its businesses, including the Company's.

<u>(1) Group Values</u>

Leadership, exhibiting passion and commitment in all aspects of Lancashire life and inspiring others to do the same, we are

Aspirational, aspiring to deliver a superior service for our clients, ourselves and our business partners, we are

Nimble in our decisions, actions and business processes, we are

Collaborative, valuing teamwork and a diversity of skills and experience and sharing in our success, and we are

Straightforward in conducting our business in an accountable, open, honest and sustainable way.

Climate Change

The Group and Company's principal strategic purpose is to deliver bespoke risk solutions that protect their clients from uncertainty, helping them manage their exposures to catastrophe risk, including those influenced by the effects of climate change. These products and services help the Group's clients manage the threats they face from unpredictable perils, contributing towards the resilience of businesses and communities faced with the threat of climate and other natural catastrophes. The Lancashire Group fosters a nimble underwriting and business culture to respond to the risk requirements of clients in a changing world and included within the Group's energy underwriting business is an established portfolio of renewable energy products and clients.

Environmental risk exposures, including assumptions related to climate change, are embedded into the Company's risk management, and performance is monitored against formal risk tolerances, in particular with regard to the exposures to natural catastrophe loss events, including weather events impacted by climate change. Stress and scenario tests performed as part of the business planning and ORSA processes include climate related scenarios and will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on business strategy or change to the Company's understanding of the risks' impact to the business.

The Group's investment committee which reports to the LUK Board actively manages its climate change transitional risk, with sensitivity to, and promotion of, Environmental, Social and Corporate ("ESG") responsible investment. The Group's principal investment managers are signatories to the world's leading proponent of responsible investment, the UN-supported 'Principles for Responsible Investment' (PRI). During 2020 the Group benchmarked its portfolio, which included LUK's portfolio, against the MSCI's ESG ratings and also scored the portfolio's carbon intensity and MSCI's carbon transition risk. The investment portfolio scored well on these measures and no "red flags" were raised from an ESG perspective.

The Group is also committed to monitoring and offsetting its own carbon emissions and the LHL Board oversees the Group's Carbon Disclosure Project submission and its alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). During the year the Group took further steps on its journey to implement the recommendations of the TCFD, in particular to utilise tools for its understanding of climate change risk on its investment portfolio as mentioned above.

Since 2019 the Group has reported against the UNEP FI Principles for Sustainable Insurance demonstrating its commitment to being both transparent and accountable by publicly disclosing the business's implementation of the Principles. The Group seeks to monitor and embed the Principles in the delivery of its strategy.

Clear and transparent ESG reporting is made through multiple channels, including the Group's Annual Report and Accounts, the Group's website and its work with the Carbon Disclosure Project.

By order of the Board

L Byrne

L Byrne

Company Secretary

8 February 2021

The Directors' present their audited financial statements for Lancashire Insurance Company (UK) Limited, registered company number 05747877 for the year ended 31 December 2020.

Principal activity

The Company is authorised by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA")to conduct general insurance business. The Company provides insurance and reinsurance products to its customers, with an emphasis on property, energy, marine and aviation lines of business. The Company received UK regulatory authorisation to underwrite business on 30 August 2006 and commenced underwriting activity on 2 October 2006. The Directors consider that the principal activity of the Company will continue unchanged into the foreseeable future.

Directors' interests

The names of the Directors of the Company as at 31 December 2020 appear on page 3. The Directors who served during the year are as follows:

John Cadman
Adrian Colosso
Michael Connor (resigned 5 March 2020)
James Flude (appointed 10 June 2020)
Samantha Hoe-Richardson
David Horne
Hayley Johnston (resigned 1 April 2020)
Steve Smart
Russell Worsley
Steve Yeo

None of the Directors have any financial interest in the Company. The interests of Directors in other companies in the Lancashire Insurance Group are dealt with in note 15.

Payment policy

It is the Company policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

Employees

All UK employees providing services to the Company are remunerated by LISL. The emoluments of these employees are recharged, as part of a management charge under management service agreements, ultimately, to the insurance operating divisions of the Lancashire Insurance Group.

Remuneration of Directors is dealt with in note 15.

Statement of disclosure of information to auditors

Each person who is a Director at the date of approval of this Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- He or she has taken all the steps that ought to have been taken in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Future developments

The outlook for 2021 is discussed in the strategic report.

Going concern

It is the responsibility of directors when preparing the financial statements to carry out an assessment to ascertain whether the company is a 'going concern'. The assessment should take into account all available information about the future, covering at least 12 months from the date on which the accounts are approved.

The Directors having reviewed the detailed risk disclosures in note 2, noting particularly the Company's short duration, highly liquid fixed interest investment portfolio and its expected liability profile, as well as the business plan and forecast for the period up to 31 December 2023, and the going concern section within the accounting policies on page 20 have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due. Accordingly, the Board has adopted and continues to consider appropriate the going concern basis in preparing the financial statements.

Auditor

A Resolution will be proposed at the group annual general meeting to re-appoint KPMG LLP as auditor and to set the auditor's remuneration. The Company will then pass a resolution to reappoint KPMG LLP as auditor.

Dividends

A dividend of $nil was paid during 2020 (2019 - $nil). The Directors do not recommend the payment of a final dividend.

The Company's ability to pay dividends and make capital distributions is subject to the legal and regulatory restrictions of the United Kingdom.

Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- Assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board

L Byrne

Company Secretary

8 February 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF LANCASHIRE INSURANCE COMPANY (UK) LIMITED

1 Our opinion is unmodified

We have audited the financial statements of Lancashire Insurance Company (UK) Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of changes in shareholder's equity, the Statement of cash flows, and the related notes, including the accounting policies on pages 20 to 23.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the Directors on 3 May 2017. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities for losses and loss adjustment expenses on a gross basis and net of outwards reinsurance

Risk vs 2019: ◄►

($292.9m gross, $44.9m net of outwards reinsurance, of which incurred but not reported represented $80.9m gross, $11.5m net of outwards reinsurance; 2019: $234.3m gross, $34.8m net of outwards reinsurance, of which incurred but not reported represented $73.3m gross, $10.7m net of outwards reinsurance).
Refer to page 22 to 23 (accounting policy) and page 46 to 48 (financial disclosures)

Risk	Our response
The Company maintains insurance contract liabilities to cover the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events including any arising from the COVID-19 global pandemic which have occurred up to the balance sheet date, regardless of whether those losses have been reported to the Company. **Subjective valuation** Insurance liabilities represent the single largest liability for the Company. Valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as initial expected loss ratios, estimates of ultimate premium, claim development patterns and rate changes. The determination and application of the methodology and performance of the calculations are also complex. These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets. In setting the provision for insurance liabilities, an allowance is made for specific risks. The determination of the allowance is a subjective judgement based on the perceived uncertainty and potential for volatility in the underlying claims. The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross and net insurance contract liabilities for losses and loss adjustment expenses has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 11) discloses the sensitivity estimated by the Company. **Completeness and accuracy of data:** For the 2020 year end audit the completeness and accuracy of data no longer forms part of our key audit matter. Whilst the valuation of insurance liabilities depends on complete and accurate data over the volume, amount and pattern of current and historical claims we no longer view this to be part of our key audit matter. Specifically, we note that the data involved is of low complexity and subjectivity and has low estimation uncertainty. There is also no manual manipulation of data within the process.	We have used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: **Control operation** Evaluating and testing the design and implementation of key controls around review and approval of reserves. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the operation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained. **Assessment of assumptions and methodologies** Assessing and challenging the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness and consistency year on year based on our knowledge and understanding of the reserving policy within the Company. This has also involved comparing the Company's reserving methodology with industry practice and understanding the rationale for any key differences. **Historical experience** Challenging the quality of the Company's historical reserving estimates by monitoring the development of losses against initial estimates. **Independent re-projections** Applying our own assumptions, across all attritional classes of business, to perform re-projections on the insurance contract liabilities on both a gross and net basis and comparing these to the Company's projected results including any allowance for specific risks. Where there were significant variances in the results, we have challenged the Company's assumptions. **Sector experience and benchmarking of large losses** Assessing and challenging the reserving assumptions by comparing the Company's loss experience to peers in the market, on a gross and net basis, including on a contract by contract basis for large loss and catastrophe events. A large loss is defined as as a single loss or event greater than $5m on a gross ultimate basis. In addition to the procedures above, the audit team performed the following procedures: **Assessing transparency** Considering the adequacy of the Company's disclosures in respect of the valuation of insurance liabilities. **Our Results** We found the valuation of the gross and net insurance contract liabilities for loss and loss adjustment expenses to be acceptable (2019 result: acceptable).

Valuation of premiums receivable from insureds and cedents which are estimated

Risk vs 2019: ◄►

Included in inwards premiums receivable from insureds and cedants (2020: $130.3m, 2019: $147.1m).

Refer to page 22 (accounting policy) and page 49 (financial disclosures)

The risk	Our response
Subjective valuation: There is a material proportion of premiums written, pricing for which is based on a best estimate of ultimate premiums. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. As updated information is received over the life of the contract, adjustments are made to the premium recognised with inwards premiums receivable from insureds and cedants recorded on the balance sheet at the year end. Adjustments are made to gross premiums written to reflect the underlying adjustment to ultimate premium estimates such as declarations received on binding authority contracts, reinstatement premiums on reinsurance contracts and other routine adjustments to premium income due to policy amendments. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of inwards premiums receivable from insureds and cedants at the year-end has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. It should however be noted that it is only a portion of the inwards premiums receivable from insureds and cedants balance (and of total gross premiums written in the statement of comprehensive income) that is subject to this valuation risk.	Our procedures included: **Control operation** Evaluating and testing the design and implementation of key controls over the periodic review of premium estimates booked. Due to the nature of this balance we would expect to obtain audit evidence primarily through detailed substantive procedures as outlined below. As such, the work over the operation of controls is used to support our conclusions to the extent that the necessary evidence around key controls could be obtained. **Methodology assessment** Assessing estimated premium income for a sample of policies, including consideration of the basis of estimation and consistency in estimation methodology over time **Retrospective analysis** Assessing the Company's past expertise in making premium estimates by comparing the estimates and actuals for prior years for a sample of policies. **Assessing transparency** Considering the adequacy of the Company's disclosures in respect of the valuation of premiums which are estimated. **Our Results** We found the valuation of premium estimates to be acceptable (2019 result: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $2.0m (2019: $1.9m), determined with reference to a benchmark of gross written premiums of which it represents 0.84% (2019 0.84%).

We consider gross written premium to be the most appropriate benchmark as it provides a stable measure year on year. We also compared our materiality against other relevant benchmarks (total assets, net assets and profit before tax) to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2019 :75%) of materiality for the financial statements as a whole, which equates to $1.5m (2019: $1.4m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.1m (2019: $0.095m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease their operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the valuation of insurance liabilities given the estimation and judgement involved in setting these reserves.
We also considered less predictable but realistic second order impacts that could affect demand in the Company's markets, such as the impact of COVID-19 on the Company's results and operations, the failure of counterparties who transact with the Company (such as policyholders and reinsurers), the performance of the investment portfolio, solvency and capital adequacy.

We considered whether these risks could plausibly affect the liquidity and solvency in the going concern period by comparing severe, but plausible downside scenarios and the degree of downside assumption that, individually and collectively, could result in a liquidity and solvency issue (a reverse stress test), taking into account the Company's current and projected financial resources. We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- We found the going concern disclosure on page 20 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period, the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the portion of premium which is estimated.

We also identified a fraud risk in relation to the following area:

- The valuation of insurance contract liabilities due to the estimation required in setting these liabilities and the ability for changes in the valuation to be used to impact profit.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the fraud risk management controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

With respect to the valuation of premiums which are estimated we evaluated and tested the design and implementation of key controls over the periodic review of premium estimates booked and assessed estimated premium balances for a sample of policies, including consideration of the basis of estimation, and consistency in estimation methodology over time.

Further detail in respect of our procedures around the valuation of insurance contract liabilities and the valuation of premiums which are estimated is set out in the key audit matter disclosures in section 2 of this report

To address the pervasive risk as it relates to management override, we also performed the following procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to unusual accounts including those related to cash and post-closing journals meeting certain criteria.
- Evaluated the business purpose of significant unusual transactions
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. This was achieved through the procedures noted above.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and regulatory capital, solvency and liquidity regulations, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines, litigation or loss of regulatory approval to underwrite insurance contracts. We identified the following areas as those most likely to have such an effect: anti-bribery and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee and those charged with governance matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.
In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the Directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of

financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Rajan Thakrar (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
8 February 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Notes	2020 $m	2019 $m
Gross premiums written	3	**243.0**	228.6
Outwards reinsurance premiums	3	**(216.4)**	(201.0)
Net premiums written		**26.6**	27.6
Change in unearned premiums	3	**(1.5)**	(1.9)
Change in unearned premiums on premiums ceded	3	**(0.7)**	5.5
Net premiums earned		**24.4**	31.2
Net investment income	4	**4.0**	5.3
Net realised gains	4	**0.3**	0.2
Net foreign exchange losses		**(0.2)**	(0.1)
Total net revenue		**28.5**	36.6
Insurance losses and loss adjustment expenses	3, 11	**130.9**	44.1
Insurance losses and loss adjustment expenses recoverable	3, 11	**(112.1)**	(39.6)
Net insurance losses		**18.8**	4.5
Insurance acquisition expenses	3, 5	**52.5**	47.5
Insurance acquisition expenses ceded and overrider commission	3, 5	**(71.6)**	(54.7)
Other operating expenses	6, 15	**32.3**	29.4
Total expenses		**32.0**	26.7
(Loss) profit before tax		**(3.5)**	9.9
Tax (credit)charge	7	**0.6**	(4.1)
(Loss) profit for the year attributable to equity shareholder		**(2.9)**	5.8
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in unrealised gains on investments	4, 9	**3.5**	4.2
Tax charge on net change in unrealised gains on investments		**(0.7)**	(0.6)
Other comprehensive income		**2.8**	3.6
Total comprehensive (loss) income		**(0.1)**	9.4

Statement of financial position
As at 31 December 2020

	Notes	2020 $m	2019 $m
Assets			
Cash and cash equivalents	8	**40.4**	16.7
Accrued interest receivable	12	**1.1**	1.1
Investments	9	**192.5**	188.8
Reinsurance assets			
– Unearned premiums on premiums ceded		**126.0**	126.7
– Reinsurance recoveries	11 ,12	**248.0**	199.5
– Other receivables	12	**19.5**	10.6
Deferred acquisition costs		**40.4**	38.5
Other receivables	12	**1.2**	4.2
Inwards premiums receivable from insureds and cedants	12	**130.3**	147.1
Total assets		**799.4**	733.2
Liabilities			
Insurance contracts			
– Losses and loss adjustment expenses	11	**292.9**	234.3
– Unearned premiums		**178.0**	176.5
– Other payables		**9.6**	14.4
Amounts payable to reinsurers		**80.6**	69.8
Deferred acquisition costs ceded		**36.7**	42.9
Other payables		**15.8**	8.0
Corporation tax payable	7	**5.1**	6.9
Deferred tax liability	13	**1.4**	1.0
Total liabilities		**620.1**	553.8
Shareholder's equity			
Share capital	14	**188.4**	188.4
Accumulated other comprehensive income	9	**5.3**	2.5
Retained earnings		**(14.4)**	(11.5)
Total shareholder's equity attributable to equity shareholder		**179.3**	179.4
Total liabilities and shareholder's equity		**799.4**	733.2

The financial statements were approved by the Board of Directors and signed on its behalf by:

J. Cadman
Director
8 February 2021

Statement of changes in shareholder's equity

For the year ended 31 December 2020

	Notes	Share capital $m	Accumulated other comprehensive loss $m	Retained earnings $m	Total shareholder's equity $m
Balance as at 31 December 2018	9,14	188.4	(1.1)	(17.3)	170.0
Total comprehensive income for the year		—	3.6	5.8	9.4
Balance as at 31 December 2019	9,14	188.4	2.5	(11.5)	179.4
Total comprehensive loss for the year		**—**	**2.8**	**(2.9)**	**(0.1)**
Balance as at 31 December 2020	9,14	**188.4**	**5.3**	**(14.4)**	**179.3**

	Notes	2020 $m	2019 $m
Cash flows (used in) from operating activities			
(Loss) profit before tax		**(3.5)**	9.9
Amortisation of fixed maturity securities		**0.3**	(0.5)
Foreign exchange losses		**0.2**	0.1
Tax paid		**(1.6)**	(2.1)
Interest income		**(4.3)**	(5.4)
Net realised gains and impairments	4	**(0.3)**	(0.2)
Changes in operational assets and liabilities			
– Insurance and reinsurance contracts		**18.2**	(11.3)
– Other assets and liabilities		**10.2**	(2.8)
Net cash flows from (used in) operating activities		**19.2**	(12.3)
Cash flows from investing activities			
Interest received		**4.6**	5.2
Purchase of fixed maturity securities		**(93.4)**	(99.5)
Proceeds on maturity and disposal of fixed maturity securities		**93.1**	101.0
Net cash flows from (used in) investing activities		**4.3**	6.7
Cash flows used in financing activities			
Dividends paid	14	**—**	—
Net cash flows used in financing activities		**—**	—
Net increase (decrease) in cash and cash equivalents		**23.5**	(5.6)
Cash and cash equivalents at beginning of year		**16.7**	22.5
Effect of exchange rate fluctuations on cash and cash equivalents		**0.2**	(0.2)
Cash and cash equivalents at end of year	8	**40.4**	16.7

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and significant accounting policies adopted in the preparation of LUK's financial statements are set out below.

BASIS OF PREPARATION

GOING CONCERN BASIS OF ACCOUNTING

The financial statements are prepared on a going concern basis in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 . The Directors have performed an assessment of the Company's ability to continue as a going concern, including the impact of the COVID-19 pandemic.

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Company or the insurance industry will be and has heightened the inherent uncertainty in the Company's going concern assessment.

In response to the COVID-19 pandemic, the Group initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Company underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of LUK's loss reserving. The current best estimate gross loss booked relating to COVID-19 is $5.0 million, $1.0 million net of reinsurance and reinstatement premiums.

The Company's financial forecasts reflect the outcomes that the Directors consider most likely, based on the information available at the date of signing these financial statements. To assesses the Company's going concern, resilience and response to the COVID-19 pandemic, the financial stability of the Company was modelled for a period of at least 12 months and a number of sensitivity, stress and scenario tests were applied to the Company's base case business plan. These included, among other analysis, a severe but plausible stress test, a realistic stress test of COVID-19 insurance and investment portfolio losses and a reverse stress test. The testing identified that even under the more severe but plausible stress scenarios, the Company had more than adequate liquidity and solvency headroom.

In addition to the above, the following factors were also considered as part of our going concern assessment:

- the Company does not write the following lines of insurance business which have been heavily impacted by the COVID-19 pandemic: travel insurance, trade credit, Directors' and Officers' liability, medical malpractice and long-term life. We have minimal exposure to mortgage business, accident and health and are exposed to a small number of event cancellation contracts.
- the Company's strategy is to underwrite more risk in a hardening market, in which pricing strengthens due to market capital constraints, and to underwrite less risk in a softer market, where pricing is weaker due to over-supply of risk capital. The COVID-19 pandemic has generated (re)insurance market losses both in terms of the claims environment and the impact on financial markets. In the face of these challenges there has been a retrenchment in (re)insurance markets risk capital and capacity. This in turn has led to continued rate increases in many of the Company's core insurance segments and accelerated rating dislocation in the catastrophe exposed reinsurance lines. The Company expects the momentum of rising rates to continue in this and other classes of business across its portfolio throughout 2021 and beyond. The Company expects to take advantage of this rating improvement by writing increased levels of business at higher pricing levels.
- the maintenance of financial strength ratings are a key factor impacting on the ability of the Company to continue as a going concern. A ratings downgrade to lower than A- could adversely impact the ability of the Company to source and write new business, retain existing business or enter into new financing arrangements. AM Best has assigned LUK a financial strength rating of A (Excellent). This was reaffirmed on 22 September 2020 and the outlook is stable.
- as at 31 December 2020, the Company considers that it has more than adequate liquidity to pay its obligations as they fall due. The Company held cash and cash equivalents of $40.4 million and fixed maturity investments with maturity dates of less than one year of $39.1 million. In addition to the cash and investment portfolio, the Group also has access to a number of LOC and revolving credit facilities which are also available to LUK. Additional liquidity risk disclosures are set out on pages 36 and 37.
- as at 31 December 2020, the average credit quality of the fixed maturity portfolio was A+ (31 December 2019 - A+) and there has not been a change in our counterparty credit exposure as a result of the COVID-19 pandemic. However, it is an area we continue to monitor. Additional credit risk disclosures are set out on pages 37 and 38;
- the Company receives an allocation of staff costs under the service fee charged from LISL set out in Note 15. LISL has not applied for, or received, any grants offered by the UK government to support businesses during the ongoing COVID-19 pandemic and is not expected to in the foreseeable future. None of the LISL employees whose costs are recharged to the Company have been furloughed and there is no expectation that any LISL employees will be furloughed in the foreseeable future.

Based on the going concern assessment performed as at 31 December 2020, the Directors consider there to be no material uncertainties that may cast significant doubt over the Company's ability to continue to operate as a going concern. The Directors have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence in the foreseeable future, a period of at least twelve months from the date of signing these financial statements.

USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements and estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying financial statement disclosures. In the course of preparing the financial statements no key judgements have been made in the process of applying the Company's accounting policies that do not include a related element of estimation uncertainty.

The key assumptions and other sources of estimation uncertainty at 31 December 2020, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year, are described below. Assumptions and estimates are based on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change or circumstances may arise that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant judgements and estimates made by management are in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverable. These are discussed on pages 22 and 23 and also in the risk disclosures section from page 26.

Less significant estimates are made in determining the estimated fair value of certain financial instruments and judgement is applied in determining impairment charges. The estimation of the fair value, specifically 'Level (iii)' investments, is discussed on pages 23 and in note 9. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

OTHER BASIS OF PREPARATION

Where International Accounting Standards are silent, as it is in respect of the measurement of insurance products, the International Accounting Standards framework allows reference to another comprehensive body of accounting principles. In such instances, the Company determines appropriate measurement bases, to provide the most useful information to users of the financial statements, using their judgement and considering U.S. GAAP.

All amounts, excluding share data or where otherwise stated, are in millions of U.S. dollars.

The statement of financial position of the Company is presented in order of decreasing liquidity.

CHANGES IN ACCOUNTING POLICIES

While a number of amended IFRS and IFRIC standards have become effective this year, none of these standards have had a material impact on the Company.

FUTURE ACCOUNTING CHANGES

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts. In June 2020 the IASB published a number of amendments to the standard including a change to the effective date of the standard to accounting periods beginning on or after 1 January 2023. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Company will continue to assess the impact that the new standard will have on its results and its presentation and disclosure requirements. IFRS 17 has not yet been endorsed by the EU and will need separate assessment by the UK Endorsement Board, following Brexit.

IFRS 9, Financial Instruments: Classification and Measurement, is effective for annual periods beginning on or after 1 January 2018. The amendments to IFRS 4, Insurance Contracts, issued in 2016, provide a temporary exemption from applying IFRS 9. The Company continues to qualify for, and has elected to apply, the temporary exemption available to companies whose predominant activity is to issue insurance contracts. The exemption lasts until the implementation date of IFRS 17, and addresses the accounting consequences of applying IFRS 9 to insurers prior to the adoption of IFRS 17. IFRS 9 introduces new classification and measurement requirements for financial instruments, an expected credit loss impairment model that replaces the IAS 39 incurred loss model and new hedge accounting requirements. Applying the new requirements of IFRS 9, the Company currently anticipates that all investments held by the Company will be classified as at FVTPL mandatory, because they are managed on a fair value basis. As a result, all investments currently disclosed in note 9 as AFS will be reclassified as at FVTPL mandatory with changes in unrealised gains (losses) currently recorded within other comprehensive income to be reclassified and recorded within net investment income in profit or loss. The reclassification from AFS to FVTPL mandatory will not result in a change in the carrying value of the investments disclosed in note 9 of the financial statements. The change in classification from AFS to FVTPL mandatory will result in balances within accumulated other comprehensive income being reclassified to retained earnings on the date of transition.

JUDGEMENTS

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements are included in the following notes:

- Going concern - whether there are material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern as discussed on page 20.
- COVID-19 pandemic - we have exercised judgement in evaluating the impact of COVID-19. The areas potentially affected are outlined below:
    - Going concern assessment (see Basis of Preparation);
    - Impact on our (re)insurance contracts liabilities and recoverables (see note 11);
    - Impact on our investment portfolio (see note 4 and note 9);
    - Impact on recoverability of deferred tax assets (see note 13);

In the course of preparing the financial statements, no other significant judgements have been made in the process of applying the Company’s accounting policies.

ASSUMPTIONS AND ESTIMATION UNCERTAINTY

The key assumptions and other sources of estimation uncertainty at 31 December 2020, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year, are described below. Assumptions and estimates are based on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change or circumstances may arise that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant estimate made by management is in relation to losses and loss adjustment expenses, both gross and net of outwards reinsurance recoverable and, to a lesser extent, premium estimates in relation to pro-rata contracts . This is discussed in note 2 on risk disclosures.

Estimates are made in determining the fair value of certain financial instruments and management judgement is applied in determining impairment charges. The estimation of the fair value of financial instruments is discussed in note 9.

FOREIGN CURRENCY

The functional currency, which is the

of the primary economic environment in which operations are conducted, for the Company is U.S. dollars. Items included in the financial statements are measured using the functional currency. The financial statements are also presented in U.S. dollars.

Foreign currency transactions are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are revalued at period end exchange rates. The resulting exchange differences on translation are recorded in the statement of comprehensive income (loss). Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are revalued at historic rates.

INSURANCE CONTRACTS

CLASSIFICATION

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Contracts that do not transfer significant insurance risk are accounted for as investment contracts. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

PREMIUMS AND ACQUISITION COSTS

Premiums are first recognised as written at the date that the contract is bound. The Company writes both excess of loss and pro-rata (proportional) contracts. For the majority of excess of loss contracts, written premium is recorded based on the minimum and deposit or flat premium, as defined in the contract. Subsequent adjustments to the minimum and deposit premium are recognised in the period in which they are determined. For pro-rata contracts and excess of loss contracts where no deposit is specified in the contract, written premium is recognised based on estimates of ultimate premiums provided by the insureds or ceding companies. Initial estimates of written premium are recognised in the period in which the contract is bound. Subsequent adjustments, based on reports of actual premium by the insureds or ceding companies, or revisions in estimates, are recorded in the period in which they are determined.

Premiums written are earned rateably over the term of the underlying risk period of the insurance contract, except where the period of risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums.

Where contract terms require the reinstatement of coverage after an insured’s or ceding company’s loss, the estimated mandatory reinstatement premiums are recorded as written premiums when a specific loss event occurs. Reinstatement premiums are not recorded for losses included within the provision for IBNR which do not relate to a specific loss event.

Inwards premiums receivable from insureds and cedants are recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

Acquisition costs represent commissions, brokerage, profit commissions and other variable costs that relate directly to the securing of new contracts and the renewing of existing contracts. They are generally deferred over the period in which the related premiums are earned to the extent they are recoverable out of expected future revenue margins. All other acquisition costs are recognised as an expense when incurred.

OUTWARDS REINSURANCE

Outwards reinsurance premiums comprise the cost of reinsurance contracts entered into. Outwards reinsurance premiums are accounted for in the period in which the contract is bound. The provision for reinsurers’ share of unearned premiums represents that part of reinsurance premiums ceded which are estimated to be earned in future financial periods. Unearned reinsurance commissions are recognised as a liability using the same principles. Any amounts recoverable from reinsurers are estimated using the same methodology as the underlying losses.

Override commission is recognised in the period that the related premium is ceded and earned on the same basis as the ceded premium.

The Company monitors the credit-worthiness of its reinsurers on an on-going basis and assesses any reinsurance assets for impairment, with any impairment loss recognised as an expense in the period in which it is determined.

LOSSES

Losses comprise losses and loss adjustment expenses paid in the period and changes in the provision for outstanding losses, including the provision for IBNR and related expenses. Losses and loss adjustment expenses are charged to income as they are incurred.

Losses and loss adjustment expenses represent the estimated ultimate cost of settling all losses and loss adjustment expenses arising from events which have occurred up to the balance sheet date, including a provision for IBNR. The Company does not discount its liabilities for unpaid losses. Outstanding losses are initially established on the basis of reports of losses received from third parties. Additional Case Reserves ("ACR"s) are determined where the Company’s best estimate of the reported loss is greater than that reported. Estimated IBNR reserves may also consist of a provision for additional development in excess of losses reported by insureds or ceding companies, as well as a provision for losses which have occurred but which have not yet been reported by insureds or ceding companies. IBNR reserves are set on a best estimate basis and are estimated by management using various actuarial methods as well as a combination of own loss experience, historical insurance industry loss experience, underwriters' experience, estimates of pricing adequacy trends, and management's professional judgement.

A portion of the Company's business is in classes with high attachment points of coverage. Reserving for losses in such programmes is inherently complicated in that losses in excess of the attachment level of the Company's policies are characterised by high severity and low frequency and other factors which could vary significantly as losses are settled. This limits the volume of industry loss experience available from which to reliably predict ultimate losses following a loss event.

The estimation of the ultimate loss and loss adjustment expense liability is a complex process which incorporates a significant amount of judgement. It is reasonably possible that uncertainties inherent in the reserving process, delays in insureds or ceding companies reporting losses to the Company, together with the potential for unforeseen adverse developments, could lead to a material change in estimated losses and loss adjustment expenses.

LIABILITY ADEQUACY TESTS

At each reporting date, the Company performs a liability adequacy test to determine if there is an overall excess of expected claims over unearned premiums by using current best estimates of future cash outflows generated by its insurance contracts, plus any investment income thereon. If, as a result of these tests, the carrying amount of the Company's insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

FINANCIAL INSTRUMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the statement of financial position at amortised cost and include cash in hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. Carrying amounts approximate fair value due to the short-term nature and high liquidity of the instruments.

Interest income earned on cash and cash equivalents is recognised on the effective interest rate method. The carrying value of accrued interest income approximates fair value due to its short-term nature and high liquidity.

INVESTMENTS

The Company's fixed maturity securities include quoted investments that are classified as AFS and are carried at estimated fair value. The classification is determined at the time of initial purchase and depends on the nature of the investment. Fixed maturity securities classified as AFS are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Regular way purchases and sales of investments are recognised at estimated fair value including transaction costs on the trade date and are subsequently carried at estimated fair value. Estimated fair value of quoted investments is determined based on bid prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors. Realised gains and losses are included in income in the period in which they arise. Unrealised gains and losses from changes in estimated fair value of AFS investments are included in accumulated other comprehensive loss in shareholder's equity.

Investments are derecognised when the Company has transferred substantially all of the risks and rewards of ownership. On derecognition of an investment, previously recorded unrealised gains and losses are recycled from accumulated other comprehensive income (loss) in shareholder's equity and included in the statements of comprehensive income (loss) as a realised gain or loss within net realised gains (losses) and impairments.

Accretion and amortisation of premiums and discounts on available for sale fixed maturity securities are calculated using the effective interest rate method and are recognised in current period net investment income. Interest income is recognised on the effective interest rate method. The carrying value of accrued interest income approximates fair value due to its short-term nature and high liquidity.

The Company reviews the carrying value of its AFS investments for evidence of impairment. An investment is impaired if its carrying value exceeds the estimated fair value and there is objective evidence of impairment to the asset. Such evidence would include a prolonged decline in estimated fair value below cost or amortised cost, where other factors, such as expected cash flows, do not support a recovery in value. If an impairment is deemed appropriate, the difference between cost or amortised cost and estimated fair value is removed from accumulated other comprehensive income in shareholder's equity and charged to current period income. Impairment losses on fixed maturity securities may be subsequently reversed through income.

TAX

Income tax represents the sum of the tax currently payable and any deferred tax. The tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the statement of comprehensive income due to certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognised on temporary differences between the assets and liabilities in the statement of financial position and their tax base. Deferred tax assets or liabilities are accounted for using the statement of financial position liability method. Deferred tax assets are recognised to the extent that realising the related tax benefit through future taxable profits is likely and are reassessed each year for recognition.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The Company applies judgement in identifying uncertainties over income tax treatments, particularly those relating to transfer pricing. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by taxation authorities.

1. GENERAL INFORMATION

The Company is a provider of global insurance and reinsurance products. The Company was incorporated in the UK on 17 March 2006 and is authorised by the PRA to conduct general insurance business. The Company is a limited liability company with an intermediate holding company, Lancashire Insurance Holdings (UK) Limited. LIHL is 100 per cent owned by the ultimate parent company, Lancashire Holdings Limited. The common shares of LHL trade on the main market of the London Stock Exchange.

2. RISK DISCLOSURES

INTRODUCTION

The Company is exposed to risks from several sources. These include insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk. The primary risk to the Company is insurance risk.

The primary objectives of the Company's Enterprise Risk Management are to ensure that capital resources held are matched to the risk profile of the Company and that the balance between risk and return is considered as part of all key business decisions. The Company has formulated, and keeps under review, a risk appetite which is set by the Board of Directors. The Company's appetite for risk will vary marginally from time to time to reflect the potential risks and returns that present themselves. However, protecting the Company's capital and providing LHL, the ultimate parent, with a superior risk adjusted return over the long term are constants. The risk appetites are expressed through detailed risk tolerances at both a Company and Group level. Risk tolerances represent the maximum amount of capital, generally on a modelled basis, that the Company and the Group are prepared to expose to certain risks.

The Company's Board of Directors is responsible for setting and monitoring risk appetite and tolerances. All risk tolerances are subject to at least an annual review and consideration by the Board of Directors. The Board of Directors reviews actual risk levels versus tolerances, emerging risks and any risk learning events at least quarterly. In addition, on a monthly basis, management assesses modelled potential losses against the risk tolerances and ensures that risk levels are managed in accordance with them.

COVID-19

On 12 March 2020, the World Health Organisation classified the COVID-19 outbreak as a pandemic. The COVID-19 pandemic has caused significant disruption in global financial markets and to worldwide economies. The COVID-19 pandemic is an ongoing situation making it exceptionally difficult to predict what the ultimate impact for the Company or the insurance industry will be and has heightened the inherent uncertainty in the Company's going concern assessment.

As the first lockdown began in March all LISL employees providing services to the Company were required to work from home. The move to remote working was seamless and the workforce quickly adapted to the changed working environment. All our teams contributed to maintaining a high level of performance across the Company and high service standards for both internal and external clients have been maintained.

In response to the COVID-19 pandemic, the Group initiated its Post Loss Response process. The process reviewed and assessed the potential implications for each class of business that the Group underwrites, across all its platforms, with involvement from underwriting, exposure management, actuarial, claims, treasury and finance teams. The output of this review formed the basis of LUK's loss reserving. The current best estimate gross loss booked relating to COVID-19 is $5 million, $1 million net of reinsurance and reinstatement premiums.

The majority of LUK's policies require physical property damage in order to trigger business interruption coverage. Management have analysed the small number of in-force property D&F contracts which have been written with affirmative wording to include business interruption without a physical damage trigger. These contracts have policy sub-limits which are largely below LUK's attachment and would therefore not, on a stand-alone basis, result in a direct claim to LUK. The Company does not write the following lines of insurance business which have been heavily impacted by the COVID-19 pandemic: travel insurance, trade credit, Directors' and Officers' liability, medical malpractice and long-term life. We have minimal exposure to mortgage business, accident and health and are exposed to a small number of event cancellation contracts.

CLIMATE CHANGE

The Company is exposed to both climate-related risk and opportunities. The two major categories of risk being transition and physical risk. Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk, market risk and reputation risk. Physical risks are those relating to the physical impacts of climate change which can be acute (those from increased frequency and severity of climate related events) or chronic (due to longer-term shifts in climate patterns). As an insurance company, LUK is more significantly affected by physical risk through its exposure to acute and chronic climate change. However, consideration must be, and is, given to transition and climate-related litigation risks. In our underwriting operations, we manage this risk effectively by supplementing our internal know-how with external vendor models. We have clear tolerances and preferences in place to actively manage exposures, and the Board regularly monitors our PMLs. The risks to the asset side of our balance sheet from exposure to climate change are mitigated in part through regular reviews of our third party asset managers, our asset allocation, and the underlying securities within our portfolio.

Climate change, its related risks and opportunities and their financial impact are a key focus of the Board at their quarterly meetings. The stress and scenario tests performed as part of the business planning process include climate-related scenarios, and these scenarios will continue to be refined and enhanced as more information becomes available. The work performed to date has not resulted in any material impact on our business strategy or change to our understanding of the risks' impacts to our business.

GROUP RISK AND RETURN COMMITTEE

The RRC seeks to optimise the capital allocation process and facilitate the appropriate use of the internal model, including considering its effectiveness. It ensures that all key areas of risk are discussed according to a schedule that covers fortnightly, monthly, quarterly, semi-annual and annual reviews. The committee meets fortnightly and is responsible for coordinating and overseeing ERM activities within the risk profile, appetites and tolerances set by the Board of Directors. The RRC includes the Group CEO and members from the finance, actuarial, modelling, operations, treasury and underwriting functions. The Chief Risk Officer attends the meetings and reports on the RRC's activities to the Board of Directors.

CHIEF RISK OFFICER

The primary role of the CRO is to facilitate the effective operation of ERM throughout the Company at all levels. The role includes but is not limited to the following responsibilities:

- overall management of the risk management system;
- drive ERM culture, ownership and execution on three levels: Board, executive management, and operationally within the business;
- facilitate the identification, assessment, evaluation and management of existing and emerging risks by management and the Board;
- ensure that these risks are given due consideration and are embedded within management's and the Board's oversight and decision making process;
- be consulted, and opine, on policy in areas such as, but not limited to, underwriting, claims, investments, operations and capital management; and
- provide timely, accurate, reliable, factual, objective and accessible information and analysis to guide, coach and support decision making.

Responsibility for the management of individual risks has been assigned to, and forms part of the performance objectives of, the risk owners within the business. Risk owners ensure that these risks and controls are consistent with their day to day processes and the entries made in the Company risk registers, which are a direct input to the economic capital model. The CRO provides regular reports to the business, outlining the status of the Company's ERM activities and strategy, as well as formal reports to the Board of Directors in this regard. The CRO ultimately has the right to report directly to the Company's regulators if they feel that management is not appropriately addressing areas of concern.

INTERNAL AUDIT

Internal audit plays a key role in the Company's ERM by providing an independent opinion regarding the accuracy and completeness of risks, in addition to verification of the effectiveness of controls and the consistency of their operation. Internal audit's roles and responsibilities are clearly defined through the Internal Audit Charter. The Head of Internal Audit reports directly to the Audit Committee. The CRO has input to the scope of each audit and receives a copy of each Internal Audit report. The CRO considers the findings and agreed actions in the context of the risk appetites and tolerances, plus the risk policies and risk management strategy of each area.

The integration of internal audit and ERM into the business helps facilitate the Company's management in the protection of its assets and reputation.

ECONOMIC CAPITAL MODELS

The Company's economic capital model is primarily focused on insurance risks, however it is also used to model other risks including market, credit and operational risks.

The economic capital model produces data in the form of stochastic distributions for all classes, including non-elemental classes. The distributions include the mean outcome and the result at various return periods, including very remote events. Projected financial outcomes for each insurance class are calculated, as well as the overall portfolio including diversification credit. Diversification credit arises as individual risks are generally not strongly correlated and are unlikely to all produce profits or losses at the same time.

The six primary risk categories, insurance risk, market risk, liquidity risk, credit risk, operational risk and strategic risk, are discussed in detail below.

A. INSURANCE RISK

The Company underwrites worldwide, predominantly short-tail, insurance and reinsurance contracts that transfer insurance risk, including risks exposed to both natural and man-made catastrophes. The Company's exposure in connection with insurance contracts is, in the event of insured losses, whether premiums will be sufficient to cover the loss payments and expenses. Insurance and reinsurance markets are cyclical and premium rates and terms and conditions vary by line of business depending on market conditions and the stage of the cycle. Market conditions are impacted by capacity and recent loss events, and broader economic cycle impacts amongst other factors. The Company's underwriters assess likely losses using their experience and knowledge of past loss experience, industry trends and current circumstances. This allows them to estimate the premiums sufficient to meet likely losses and expenses and desired levels of profitability.

The Company considers insurance risk at an individual contract level, at a sector level, a geographic level and at an aggregate portfolio level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The four principal classes of business for the Company are Property, Energy, Marine and Aviation. The level of insurance risk tolerance per peril is set by the respective Boards of Directors.

A number of controls are deployed to manage the amount of insurance exposure assumed:

- the Company has a rolling three-year strategic plan that helps establish the overriding business goals that the LUK Board of Directors aim to achieve;
- a detailed business plan is produced annually, which includes expected premiums and combined ratios by class and considers risk-adjusted profitability, capital usage and requirements. The plan is approved by the Board of Directors and is monitored, reviewed and updated on an ongoing basis;
- economic capital models are used to measure occurrence risks, aggregate risks and correlations between classes and other non-insurance risks;
- each authorised class has a predetermined normal maximum line structure;

- each underwriter has a clearly defined limit of underwriting authority;
- the Company has predetermined tolerances on probabilistic and deterministic losses of capital for certain single events;
- risk levels versus tolerances are communicated broadly on a regular basis;
- a daily underwriting call is held to peer review insurance proposals, opportunities and emerging risks;
- sophisticated pricing models are utilised in certain areas of the underwriting process;
- a number of modelling tools are deployed to simulate catastrophes and resultant losses to the portfolio and the Company; and
- reinsurance may be purchased to mitigate both frequency and severity of losses on a facultative, excess of loss or proportional treaty basis.

Some of the Company's business provides coverage for natural catastrophes (e.g. hurricanes, earthquakes and floods) and is subject to potential seasonal variation. A proportion of the Company's business is exposed to large catastrophe losses in North America, Europe and Japan as a result of windstorms. The level of windstorm activity, and landfall thereof, during the North American, European and Japanese wind seasons may materially impact the Company's loss experience. The North American and Japanese wind seasons are typically June to November and the European wind season November to March. The Company also bears exposure to large losses arising from other non-seasonal natural catastrophes, such as earthquakes, tsunamis, droughts, floods and tornadoes, from risk losses throughout the year and from war, terrorism and political risk and other events.

The Company's exposures to certain peak zone elemental losses, as a percentage of capital are shown below. Net loss estimates are before income tax and net of reinstatement premiums and outwards reinsurance on a first occurrence return period basis.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2020		**$m**	**% of capital**	**$m**	**% of capital**
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	**9.0**	**5.0**	**12.4**	**6.9**
Non-Gulf of Mexico – U.S.	Hurricane	**2.9**	**1.6**	**3.6**	**2.0**
California	Earthquake	**3.0**	**1.7**	**3.4**	**1.9**
Japan	Earthquake	**2.1**	**1.2**	**4.6**	**2.6**
Pacific North West	Earthquake	**1.0**	**0.6**	**3.0**	**1.7**
Japan	Typhoon	**0.6**	**0.3**	**0.8**	**0.4**
Pan-European	Windstorm	**0.7**	**0.4**	**1.0**	**0.6**

(1) Landing hurricane from Florida to Texas.

		100 year return period estimated net loss		250 year return period estimated net loss	
As at 31 December 2019		$m	% of capital	$m	% of capital
Zones	**Perils**				
Gulf of Mexico[1]	Hurricane	9.6	5.4	13.9	7.7
Non-Gulf of Mexico – U.S.	Hurricane	0.5	0.3	1.0	0.6
California	Earthquake	0.5	0.3	0.9	0.5
Japan	Earthquake	4.0	2.2	14.3	8.0
Pacific North West	Earthquake	0.1	0.1	0.5	0.3
Japan	Typhoon	0.3	0.2	0.5	0.3
Pan-European	Windstorm	0.6	0.3	0.9	0.5

(1) Landing hurricane from Florida to Texas.

There can be no guarantee that the modelled assumptions and techniques deployed in calculating these figures are accurate. There could also be an unmodelled loss which exceeds these figures. In addition, the models contain loss scenarios which could cause a larger loss to capital than the modelled expectation from the above return periods.

Details of annual gross premiums written by business segment are provided below:

	2020		2019	
	$m	**%**	$m	%
Property	**55.3**	**22.8**	54.4	23.8
Energy	**96.3**	**39.6**	93.6	40.9
Marine	**35.7**	**14.7**	28.5	12.5
Aviation	**55.7**	**22.9**	52.1	22.8
Total	**243.0**	**100.0**	228.6	100.0

Details of annual gross premiums written by geographic area of risks insured are provided below:

	2020		2019	
	$m	%	$m	%
U.S. and Canada	**34.6**	**14.2**	**17.4**	7.6
Worldwide- multi-territory	**164.4**	**67.7**	**165.5**	72.4
Europe	**15.9**	**6.5**	**17.5**	7.7
Rest of world	**28.1**	**11.6**	**28.2**	12.3
Total	**243.0**	**100.0**	**228.6**	100.0

Further details of the gross premiums written and the risks associated with each of these four principal business segments are described on the following pages.

I. PROPERTY

Gross premiums written, for the year:

	2020 $m	2019 $m
Property direct and facultative	**19.0**	1.5
Terrorism	**20.4**	25.7
Property political risk	**14.8**	23.7
Property catastrophe excess of loss	**—**	0.1
Property retrocession	**0.2**	2.1
Other property	**0.9**	1.3
Total	**55.3**	54.4

Property direct and facultative is a worldwide book of largely commercial property business. The account spans small individual locations to Fortune 500 accounts but with a bias towards small to medium-sized risks. Policies are generally provided both for non-elemental and elemental perils, although not all risks include both elemental and non-elemental coverage. Coverage is generally written on a full value, primary or excess of loss basis, although the very largest accounts are currently seldom written at the primary level.

Terrorism business can be written either ground up or, for primary or high excess layers, with cover provided for U.S. and worldwide property risks, but typically excluding nuclear, chemical and biological coverage in most territories. Cover is generally provided to medium to large commercial and industrial enterprises. Policies are typically written for scheduled locations and exposure is controlled by setting limits on aggregate exposure within a "blast zone" radius. Some national pools are also written, which may include nuclear, chemical and biological coverage and may have an element of life coverage.

Property political risk cover is written either ground up or on an excess of loss basis. Coverage that the Company provides in the Property political risk book is split between Confiscation perils coverage and Sovereign/Quasi-Sovereign obligor coverage. Confiscation perils coverage protects against CEND (Confiscation, Expropriation, Nationalisation, Deprivation) and may be extended to include other perils. Sovereign/Quasi Sovereign obligors coverage protects against the non-payment or non-honouring of an obligation by a Sovereign or Quasi Sovereign entity. Cover is provided to medium to large commercial and industrial clients as well as bank and commodity trading clients. The Company does not cover against private obligor credit risk.

The Company is exposed to large natural catastrophe losses, such as windstorm and earthquake loss, from its remaining property direct and facultative portfolio. Exposure to such events is controlled and measured by setting limits on aggregate exposures in certain classes per geographic zone and through loss modelling. The accuracy of the latter exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 25 and 26.

Property retrocession is written on an excess of loss basis through treaty arrangements and covers elemental risks.

Reinsurance may be purchased to mitigate exposures to large natural catastrophe losses in the U.S., Canada and worldwide with certain exclusions. Reinsurance may also be purchased to reduce the Company's worldwide exposure to large risk losses. Reinsurance is typically purchased on an excess of loss basis; however, ILWs or quota share arrangements may be entered into.

II. ENERGY

Gross premiums written, for the year:

	2020 $m	2019 $m
Upstream energy	**53.7**	53.8
Gulf of Mexico offshore energy	**5.3**	6.0
Construction energy	**0.5**	2.7
Downstream energy	**29.2**	21.0
Energy liabilities	**3.4**	3.3
Other energy	**4.2**	6.8
Total	**96.3**	93.6

Energy risks are written mostly on a direct basis and may be ground up or for primary or excess layers on either a first loss or full value basis.

Upstream energy policies are typically package policies which may include physical damage, business interruption and third party liability sections. Coverage can include fire and explosion and elemental risks. Individual assets covered can be high value and are therefore mostly written on a subscription basis meaning that coverage is placed with multiple underwriters.

Gulf of Mexico offshore energy programmes cover elemental and non-elemental risks. Most policies have sub-limits on coverage for elemental losses. These programmes are exposed to Gulf of Mexico windstorms. Exposure to such events is controlled and measured through loss modelling. The accuracy of this exposure analysis is limited by the quality of data and the effectiveness of the modelling. It is possible that a catastrophic event significantly exceeds the expected modelled event loss. The Company's appetite and exposure guidelines to large losses are set out on pages 25 and 26.

Construction energy contracts generally cover all risks of platform and drilling units under construction at yards and offshore, during towing and installation. Onshore construction contracts are generally not written.

Downstream energy risks are generally those with an operational hydrocarbon risk - either processing and or storage and or transmission - and may also include production of chemicals and intermediates. Policies typically cover property for physical damage (including natural catastrophe) and machinery breakdown perils plus consequential business interruption exposure and may be written on a proportional or excess of loss basis, often with loss limits set at a level commensurate with a modelled "estimated maximum loss" scenario. The portfolio encompasses a global spread of accounts, and critical natural catastrophe coverage is usually sub-limited, with underwriting assessment employing industry-accepted modelling tools to assess this exposure where possible. The sector provides cover for operational assets, albeit some construction risk is covered only where it is not deemed the policy's primary exposure, whilst third party liabilities are not covered (except where required under legislation for a small sub-limited property damage cover required under 'Napoleonic code'). Reinsurance may be purchased on a facultative or treaty basis.

The Company also writes energy liability business on a stand-alone basis. Unlike the liability contained within the energy packages that the Company writes, stand-alone energy liability is written on an excess of loss basis only. Coverage is worldwide and provides coverage for all kinds of damages and loss to third parties. Coverage is generally restricted to offshore assets.

Reinsurance protection may be purchased to protect a portion of loss from elemental and non-elemental energy claims, and from the accumulation of smaller, attritional losses. Reinsurance is typically purchased on an excess of loss basis but, from time to time, quota share arrangements may be entered into. Reinsurance may be purchased on a facultative or treaty basis.

III. MARINE

Gross premiums written, for the year:

	2020 $m	2019 $m
Marine hull and total loss	**18.8**	12.3
Marine builders' risk	**10.6**	10.7
Marine hull war	**2.8**	2.9
Marine liability	**1.7**	0.4
Other marine	**1.8**	2.2
Total	**35.7**	28.5

Marine business is predominantly written on a quota share basis. Marine hull and total loss is generally written on a direct basis and covers marine risks on a worldwide basis, primarily for physical damage. Marine builders risk covers the building of ocean going vessels in specialised yards worldwide. Marine hull war is mostly direct insurance of loss of vessels from war, piracy or terrorist attack, with a very limited amount of facultative reinsurance. Marine cargo programmes are not normally written.

The largest expected exposure in the marine class is from physical loss rather than from elemental loss events, although there is exposure to elemental perils and to the costs from removal of wreck.

Reinsurance may be purchased to reduce the Company's exposure to both large risk losses and an accumulation of smaller, attritional losses.

IV. AVIATION

Gross premiums written, for the year:

	2020 $m	2019 $m
AV52	**18.2**	16.1
Aviation deductible	**33.3**	33.0
Other aviation	**4.2**	3.0
Total	**55.7**	52.1

AV52 is written on a risk-attaching excess of loss basis and provides coverage for third party liability, excluding own passenger liability, resulting from acts of war or hijack of aircraft. Cover excludes countries whose governments provide a backstop coverage, but does, since 2014, include some US commercial airlines.

Aviation deductible business is a specialist area with small individual limits normally up to $1.0 million and covers the deductible the airline would normally have for each and every loss under the terms of their airline policy.

Other aviation business includes airlines hull and liability and satellite lines of business.

Reinsurance may be purchased to mitigate exposures to an AV52 event loss. Reinsurance is typically purchased on a treaty excess of loss basis.

REINSURANCE

The Company, in the normal course of business and in accordance with its risk management practices, seeks to reduce certain types of loss that may arise from events that could cause unfavourable underwriting results, and to improve the modelled risk-adjusted change in FCBVS by entering into reinsurance arrangements. Reinsurance does not relieve the Company of its obligations to policyholders. Under the Company's reinsurance security policy, reinsurers are assessed and approved as appropriate security based on their financial strength ratings, amongst other factors. The Reinsurance Security Committee considers reinsurers that are not rated or do not fall within the pre-defined rating categories on a case by case basis, and would usually require collateral to be posted to support such obligations. There are specific guidelines for these collateralised contracts. This committee monitors its reinsurers on an ongoing basis and meets formally at least quarterly.

The Company's principal reinsurance arrangement is with LICL, through an 80.0 per cent (2019 - 80.0 per cent) whole account quota share agreement, after taking account of certain other third party inuring reinsurance contracts. At 31 December 2020 LICL was rated A (excellent) by A. M. Best.

In addition to the quota share agreement referred to above, reinsurance protection is typically purchased on an excess of loss or quota share basis and occasionally includes ILW covers. The mix of reinsurance cover is dependent on the specific loss mitigation requirements, market conditions and available capacity. The structure varies between types of peril and subclass. The Company regularly reviews its catastrophe exposures and may purchase reinsurance in order to reduce the Company's net exposure to a large natural catastrophe loss and/or to reduce net exposures to other large losses. The Company can purchase both facultative and treaty reinsurance. There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances, as it is possible that the cover purchased is not sufficient. Any loss amount which exceeds the programme would be retained by the Company. Some parts of the reinsurance programme have limited reinstatements therefore the number of claims which may be recovered from second or subsequent losses in those particular circumstances is limited.

INSURANCE LIABILITIES

For most insurance and reinsurance companies, the most significant judgement made by management is the estimation of losses and loss adjustment expenses. The estimation of the ultimate liability arising from claims made under insurance and reinsurance contracts is a critical estimate for the Company particularly given the nature of the business written.

Under generally accepted accounting principles, loss reserves are not permitted until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the provision of a contingency reserve to account for expected future losses or for the emergence of new types of latent claims. Claims arising from future events can be expected to require the establishment of substantial reserves from time to time. All of the Company's reserves are reported on an undiscounted basis.

Loss and loss adjustment expenses are maintained to cover the Company's estimated liability for both reported and unreported claims. Reserving methodologies that calculate a point estimate for the ultimate losses are utilised. This represents management's best estimate of ultimate loss and loss adjustment expenses. The Company's internal actuaries review the reserving assumptions and methodologies on a quarterly basis with loss estimates being generally subject to a semi-annual independent review by external actuaries. The results of the independent review are presented to the Company's Audit Committee. The Company has also established a Reserve Committee which has responsibility for the review of large claims and IBNR levels, their development and also any changes in reserving philosophy and assumptions.

The extent to which the reserving process relies on management's judgement is dependent on a number of factors including whether the business is insurance or reinsurance, whether it is short-tail or long-tail and whether the business is written on an excess of loss or pro rata basis. Generally, the Company writes most of its business on a direct excess of loss basis and the Company does not currently write a significant amount of long-tail business.

INSURANCE VERSUS REINSURANCE

Loss reserve calculations whether reserving for direct insurance business or for reinsurance classes are not precise in that they deal with the inherent uncertainty of assumptions regarding future reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors, such as inflation. The estimates and judgements relied on in making loss reserve calculations are based on a number of factors and may be revised as additional experience or other data becomes available. Loss reserve calculations are also reviewed as new or improved methodologies are developed and as laws or regulations change.

Furthermore, as a business operating within a broker market, management must rely on loss information reported to brokers by other insurers and their loss adjusters, who must estimate their own losses at the policy level, often based on incomplete and changing information. The information management receives varies by cedant and may include paid losses, estimated case reserves and an estimated provision for IBNR reserves. Additionally, reserving practices and the quality of data reporting may vary among ceding companies, which adds further uncertainty to management's estimates of the ultimate losses.

SHORT-TAIL VERSUS LONG-TAIL

In general, claims relating to short-tail risks, such as the majority of risks underwritten by the Company, are reported more promptly than those relating to long-tail risks, including the majority of casualty risks. The timeliness of reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, and whether the losses are from policies in force with insureds, primary insurers, or with reinsurers.

EXCESS OF LOSS VERSUS PROPORTIONAL

For excess of loss contracts, which make up the majority of the Company's business, management are aided by the fact that each policy has a defined limit of liability arising from one event. Once that limit has been reached, there is no further exposure to additional losses from that policy for the same event. For proportional business, an initial estimated loss and loss expense ratio is generally used. This is based upon information provided by the insured or ceding company and/or their broker and management's historical experience of that treaty, if any, and the estimate is adjusted as actual experience becomes known.

TIME LAGS

There is a time lag inherent in reporting from the original claimant to the primary insurer or binding authority holder to the broker and then to the reinsurer. Also, the combination of low claims frequency and high severity makes the available data more volatile and less useful for predicting ultimate losses. In the case of proportional contracts, reliance is placed on an analysis of a contract's historical experience, industry information, and the professional judgement of underwriters in estimating reserves for these contracts. In addition, if available, reliance is placed partially on ultimate loss ratio forecasts as reported by insureds or cedants, which are normally subject to a quarterly or six-month lag.

UNCERTAINTY

As a result of the time lag described above, an estimation must be made of IBNR reserves, which consist of a provision for additional development in excess of the case reserves reported by insureds or ceding companies, as well as a provision for claims which have occurred but which have not yet been reported by insureds or ceding companies. Due to the degree of reliance that is necessarily placed on insureds or ceding companies for claims reporting, the associated time lag, the low frequency/high severity nature of much of the business that the Company underwrites, and the varying reserving practices among ceding companies, reserve estimates are highly dependent on management judgement and therefore uncertain. During the loss settlement period, which may be years in duration, additional facts regarding individual claims and trends often will become known, and current laws and case law may change, as well as regulatory directives, with a consequent impact on reserving. The claims count on the types of insurance and reinsurance that the Company writes, which are low frequency and high severity in nature, is generally low.

For certain catastrophic events there is greater uncertainty underlying the assumptions and associated estimated reserves for losses and loss adjustment expenses. Complexity resulting from problems such as policy coverage issues, multiple events affecting one geographic area and the resulting impact on claims adjusting (including the allocation of claims to the specific event and the effect of demand surge on the cost of building materials and labour) by, and communications from, insureds or ceding companies, can cause delays to the timing with which the Company is notified of changes to loss estimates.

As at 31 December 2020, management's estimates for gross IBNR of $81.0m (31 December 2019 - $73.3m) represented 27.6 per cent (31 December 2019 - 31.3 per cent) of total gross loss reserves. On an net basis IBNR represented 25.6 per cent of total net loss reserves (31 December 2019 – 30.8 per cent). The majority of the estimate relates to potential claims on non-elemental risks where timing delays in insured or cedant reporting may mean losses could have occurred of which the Company was not made aware by the balance sheet date.

B. MARKET RISK

The Company is at risk of loss due to movements in market factors. The main risks include insurance risk, investment risk and currency risk.

These risks, and the management thereof, are described below.

I. INSURANCE RISK

The Company is exposed to insurance market risk from several sources, including the following:

- the advent or continuation of a soft market, which may result in a stabilisation or decline in premium rates and/or terms and conditions for certain lines, or across all lines;
- the actions and reactions of key competitors, which may directly result in volatility in premium volumes and rates, fee levels and other input costs;
- market events, including unusual inflation in rates, may result in a limit in the availability of cover, causing political intervention or national remedies;
- failure to maintain broker, binding authority and client relationships, leading to a limited or substandard choice of risks inconsistent with the Company's risk appetite;
- changes in regulation including capital, governance or licensing requirements; and

- changes in the geopolitical environment.

The most important method to mitigate insurance market risk is to maintain strict underwriting standards. The Company manages insurance market risk in numerous ways, including the following:

- reviews and amends underwriting plans and outlook as necessary;
- reduces exposure to market sectors where conditions have reached unattractive levels;
- purchases appropriate, cost-effective reinsurance cover to mitigate exposures;
- closely monitors changes in rates and terms and conditions;
- ensures through continuous capital management that it does not allow surplus capital to drive underwriting appetite;
- holds a daily underwriting call to discuss, inter alia, market conditions and opportunities;
- reviews output from the Company's economic capital model, to assess up-to-date profitability of classes and sectors;
- participates in a quarterly Underwriting and Underwriting Risk Committee meeting to review underwriting strategy;
- participates in a fortnightly RRC meeting to discuss risk and reinsurance; and
- holds regular meetings with regulators.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

II. INVESTMENT RISK

Movements in investments resulting from changes in interest and inflation rates and currency exchange rates, amongst other factors, may lead to an adverse impact on the value of the Company's investment portfolio. Investment guidelines are established by the Investment Committee of the LHL Board of Directors to manage this risk. The LUK Board of Directors reviews and adopts these guidelines as appropriate. Investment guidelines set parameters within which the Company's external investment managers must operate. Important parameters include guidelines on permissible assets, duration ranges, credit quality, currency, maturity, sectors, geographical, sovereign and issuer exposures. Investment guidelines exist at the Company portfolio level. Compliance with guidelines is monitored on a monthly basis. Any adjustments to the investment guidelines are approved by the Investment Risk and Return Committee of the LHL Board of Directors and the LUK Board of Directors.

Within the Company guidelines is a subset of guidelines for the portion of funds required to meet near term obligations and cash flow needs following an extreme event. The funds to cover this potential liability are designated as the "core" portfolio and the portfolio duration is matched to the duration of the insurance liabilities, within an agreed range. The core portfolio is invested in fixed maturity securities and cash and cash equivalents. The core portfolio may, at times, contain assets significantly in excess of those required to meet insurance liabilities or other defined funding needs. The subset of guidelines adds a further degree of requirements, including fewer allowable asset classes, higher credit quality, shorter duration and higher liquidity. The primary objectives of this portion of assets are capital preservation and providing liquidity to meet insurance and other near term obligations.

Assets in excess of those required to be held in the core portfolio, are typically held in the "surplus" portfolio. The surplus portfolio is invested in fixed maturity securities, cash and cash equivalents and can also be invested in derivative instruments. In general, the duration of the surplus portfolio may be slightly longer than the core portfolio. Currently, the Company does not hold any equity securities, derivative instruments or any alternative investments, such as hedge funds.

The Company reviews the composition, duration and asset allocation of its investment portfolio on a regular basis in order to respond to changes in interest rates and other market conditions. If certain asset classes are anticipated to produce a higher return within management's risk tolerance, an adjustment in asset allocation may be made. Conversely, if the risk profile is expected to move outside of tolerance levels, adjustments may be made to reduce the risks in the portfolio.

The Company's fixed maturity portfolios are managed by an external investment manager. The performance of the manager is monitored on an ongoing basis.

The investment portfolio is currently structured to perform better in a risk-on environment in order to mitigate the impact of a potential rise in interest rates. The Company endeavours to limit losses in risk-on, risk-off and interest rate hike scenarios. These scenarios represent what could, and most likely will occur (albeit not in the exact form of our chosen scenario). The Company also monitors the portfolio impact of more severe disaster scenarios consisting of extreme shocks.

The value of the investment portfolio has been impacted by the ongoing uncertainty and volatility in financial markets caused by the COVID-19 pandemic. In addition, the investment portfolio is stressed for various economic stresses, including Pandemic Recession scenarios to stress for the on-going uncertainly and volatility in financial markets caused by the COVID-19 pandemic. The investment portfolio has additional credit risk from COVID-19 pandemic, increasing the risk of defaults across many industries. The COVID-19 pandemic has coincided with historically low interest rate levels, which are expected to remain low for the next two to three years. As a result of this the Company continues to focus on the most significant risks in the investment portfolio; interest rate risk, credit risk and liquidity risk and has built stress tests and risk analytics around these risks to ensure they remain within tolerances and preferences.

The Investment Risk and Return Committee meets quarterly to ensure that the Company's strategic and tactical investment actions are consistent with investment risk preferences, appetite, risk and return objectives and tolerances. The Investment Risk and Return Committee also helps further develop the risk tolerances to be incorporated into the ERM framework.

The investment mix of the fixed maturity portfolios is as follows:

As at 31 December 2020	Core		Surplus		Total	
	$m	%	$m	%	$m	%
AFS - external						
– Short term investments	**8.0**	**4.2**	**—**	**—**	**8.0**	**4.2**
– U.S. treasuries	**50.4**	**26.2**	**7.2**	**3.7**	**57.6**	**29.9**
– Other government bonds	**3.1**	**1.6**	**—**	**—**	**3.1**	**1.6**
– U.S. municipal bonds	**2.2**	**1.1**	**—**	**—**	**2.2**	**1.1**
– Asset backed securities	**0.7**	**0.4**	**0.2**	**0.1**	**0.9**	**0.5**
– U.S. government agency mortgage backed securities	**5.8**	**3.0**	**0.7**	**0.4**	**6.5**	**3.4**
– Corporate bonds	**107.8**	**56.0**	**6.4**	**3.3**	**114.2**	**59.3**
Total fixed maturity securities	**178.0**	**92.5**	**14.5**	**7.5**	**192.5**	**100.0**

As at 31 December 2019	Core		Surplus		Total	
	$m	%	$m	%	$m	%
AFS - external						
– Short term investments	28.3	15.0	—	—	28.3	15.0
– U.S. treasuries	20.8	11.0	7.4	3.9	28.2	14.9
– Other government bonds	1.2	0.6	—	—	1.2	0.6
– U.S. municipal bonds	2.2	1.2	—	—	2.2	1.2
– Asset backed securities	1.8	1.0	0.2	0.1	2.0	1.1
– U.S. government agency mortgage backed securities	7.8	4.1	1.0	0.5	8.8	4.6
– Non-agency mortgage backed securities	0.1	0.1	—	—	0.1	0.1
– Corporate bonds	113.2	60.0	4.8	2.5	118.0	62.5
Total fixed maturity securities	175.4	93.0	13.4	7.0	188.8	100.0

The sector allocation of the corporate bonds is as follows:

As at 31 December	2020		2019	
	$m	%	$m	%
Industrial	**70.5**	**61.8**	66.2	56.1
Financial	**37.5**	**32.8**	44.7	37.9
Utility	**6.2**	**5.4**	7.1	6.0
Total	**114.2**	**100.0**	118.0	100.0

Corporate bonds and non-U.S. sovereign bonds by country are summarised as follows:

As at 31 December 2020	Financials $m	Other industries $m	Total corporate bonds $m	Other government bonds $m
Bonds by country				
United States	**20.4**	**61.5**	**81.9**	**—**
Japan	**2.9**	**3.5**	**6.4**	**—**
France	**4.0**	**2.0**	**6.0**	**—**
Great Britain	**0.4**	**5.2**	**5.6**	**—**
Netherlands	**2.3**	**0.7**	**3.0**	**—**
Spain	**2.1**	**—**	**2.1**	**—**
Italy	**1.3**	**0.8**	**2.1**	**—**
Canada	**0.4**	**1.3**	**1.7**	**—**
Switzerland	**1.6**	**—**	**1.6**	**1.2**
Germany	**—**	**1.4**	**1.4**	**—**
Sweden	**1.4**	**—**	**1.4**	**—**
Denmark	**0.7**	**—**	**0.7**	**—**
Australia	**—**	**0.2**	**0.2**	**—**
Ireland	**—**	**0.1**	**0.1**	**—**
Supranational	**—**	**—**	**—**	**1.9**
Total	**37.5**	**76.7**	**114.2**	**3.1**

As at 31 December 2019	Financials $m	Other industries $m	Total corporate bonds $m	Other government bonds $m
Bonds by country				
United States	23.9	57.1	81.0	—
Great Britain	1.9	5.2	7.1	—
Supranational	6.4	—	6.4	—
Japan	2.3	3.5	5.8	—
France	2.7	1.9	4.6	—
Switzerland	1.6	2.2	3.8	—
Netherlands	1.6	0.7	2.3	1.2
Italy	1.3	0.8	2.1	—
Spain	1.7	—	1.7	—
Canada	0.4	1.0	1.4	—
Luxembourg	—	0.9	0.9	—
Denmark	0.7	—	0.7	—
Bermuda	0.1	—	0.1	—
China	0.1	—	0.1	—
Total	44.7	73.3	118.0	1.2

The Company's net asset value is directly impacted by movements in the value of investments held. Values can be impacted by movements in interest rates, credit ratings, economic environment and outlook, and exchange rates.

The Company has no exposure to valuation risk from equity securities. The Company's investment portfolio is comprised mainly of fixed maturity securities. The fair value of the Company's fixed maturity portfolio is generally inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the Company's fixed maturity securities would tend to rise and vice versa.

The sensitivity of the price of fixed maturity securities to movements in interest rates is indicated by their duration. The greater a security's duration, the greater its price volatility to movements in interest rates. The sensitivity of the Company's fixed maturity portfolio to interest rate movements is detailed below, assuming linear movements in interest rates and excluding tax impacts:

As at 31 December	2020 $m	2020 %	2019 $m	2019 %
Immediate shift in yield (basis points)				
100	**(4.2)**	**(2.0)**	(3.8)	(2.0)
75	**(3.1)**	**(1.5)**	(2.9)	(1.5)
50	**(2.1)**	**(1.0)**	(1.9)	(1.0)
25	**(1.0)**	**(0.5)**	(1.0)	(0.5)
(25)	**1.0**	**0.5**	1.0	0.5
(50)	**2.1**	**1.0**	1.9	1.0
(75)	**3.1**	**1.5**	2.9	1.5
(100)	**4.2**	**2.0**	3.8	2.0

The Company mitigates interest rate risk on the investment portfolio by establishing and monitoring duration ranges in its investment guidelines. The duration of the core portfolio is matched to the modelled duration of the insurance reserves, within a permitted range. The permitted duration range for the surplus portfolio is between one and five years.

The duration of the externally managed portfolios are as follows:

As at 31 December	2020 years	2019 years
Core portfolio	**1.9**	1.9
Surplus portfolio	**3.3**	3.2

In addition to duration management, the Company uses Value at Risk ("VaR") on a monthly basis to measure potential losses in the estimated fair values of its cash and invested assets and to understand and monitor risk. The VaR calculation is performed using variance/covariance risk modelling to capture the cash flows and embedded optionality of the portfolio. Securities are valued individually using standard market pricing models. These security valuations serve as the input to many risk analytics, including full valuation risk analyses, as well as parametric methods that rely on option adjusted risk sensitivities to approximate the risk and return profiles of the portfolio.

The principal VaR measure that is produced is an annual VaR at the 99th percentile confidence level. Under normal conditions, the portfolio is not expected to lose more than the VaR metric listed in the table below, 99% of the time over a one year time horizon.

The Company's annual VaR calculations are as follows:

As at 31 December	2020 $m	2020 % of shareholder's equity	2019 $m	2019 % of shareholder's equity
95th percentile confidence level	**3.6**	**2.0**	3.2	1.8
99th percentile confidence level	**5.0**	**2.8**	4.5	2.5

III. CURRENCY RISK

The Company currently underwrites from London, although risks are assumed on a worldwide basis. Risks assumed are predominantly denominated in U.S. dollars.

The Company is exposed to currency risk to the extent its assets are denominated in different currencies to its liabilities. The Company is also exposed to non-retranslation risk on non-monetary assets such as unearned premiums and deferred acquisition costs. Exchange gains and losses can impact income.

The Company hedges monetary non-U.S. dollar liabilities primarily with non-U.S. dollar assets. The Company's main foreign currency exposure relates to its insurance obligations, cash holdings, and premiums receivable.

The Company's assets and liabilities, categorised by currency at their translated carrying amount, are as follows:

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	**36.7**	**0.7**	**0.8**	**2.2**	**—**	**40.4**
Accrued interest receivable	**1.1**	**—**	**—**	**—**	**—**	**1.1**
Fixed maturity securities, available for sale	**192.5**	**—**	**—**	**—**	**—**	**192.5**
Reinsurance assets	**315.2**	**9.4**	**48.3**	**2.6**	**18.0**	**393.5**
Deferred acquisition costs	**25.0**	**1.6**	**10.9**	**0.3**	**2.6**	**40.4**
Other receivables	**1.2**	**—**	**—**	**—**	**—**	**1.2**
Inwards premiums receivable from insureds and cedants	**103.1**	**1.5**	**22.7**	**—**	**3.0**	**130.3**
Total assets at 31 December 2020	**674.8**	**13.2**	**82.7**	**5.1**	**23.6**	**799.4**

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	**247.2**	**3.1**	**24.4**	**2.4**	**15.8**	**292.9**
Unearned premiums	**124.3**	**5.3**	**38.2**	**1.0**	**9.2**	**178.0**
Insurance contracts – other payables	**8.0**	**1.0**	**—**	**—**	**0.6**	**9.6**
Amounts payable to reinsurers	**61.0**	**—**	**19.6**	**—**	**—**	**80.6**
Deferred acquisition costs ceded	**22.9**	**1.3**	**10.3**	**—**	**2.2**	**36.7**
Other payables	**13.7**	**—**	**—**	**—**	**2.1**	**15.8**
Corporation tax payable	**—**	**5.1**	**—**	**—**	**—**	**5.1**
Deferred tax liability	**—**	**1.4**	**—**	**—**	**—**	**1.4**
Total liabilities at 31 December 2020	**477.1**	**17.2**	**92.5**	**3.4**	**29.9**	**620.1**

Assets	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Cash and cash equivalents	12.1	0.5	0.6	1.8	1.7	16.7
Accrued interest receivable	1.1	—	—	—	—	1.1
Fixed maturity securities, available for sale	188.8	—	—	—	—	188.8
Reinsurance assets	264.4	7.5	45.9	2.7	16.3	336.8
Deferred acquisition costs	25.3	1.2	9.7	0.2	2.1	38.5
Other receivables	1.1	3.1	—	—	—	4.2
Inwards premiums receivable from insureds and cedants	117.4	1.9	22.9	—	4.9	147.1
Total assets at 31 December 2019	610.2	14.2	79.1	4.7	25.0	733.2

Liabilities	U.S. $ $m	Sterling $m	Euro $m	Japanese Yen $m	Other $m	Total $m
Losses and loss adjustment expenses	193.9	3.1	21.1	3.0	13.2	234.3
Unearned premiums	125.5	4.6	37.0	0.6	8.8	176.5
Insurance contracts – other payables	11.5	1.2	0.9	—	0.8	14.4
Amounts payable to reinsurers	51.3	—	17.5	—	1.0	69.8
Deferred acquisition costs ceded	29.6	1.1	10.1	—	2.1	42.9
Other payables	8.0	—	—	—	—	8.0
Corporation tax payable	—	6.9	—	—	—	6.9
Deferred tax liability	—	1.0	—	—	—	1.0
Total liabilities at 31 December 2019	419.8	17.9	86.6	3.6	25.9	553.8

The impact on net income of a proportional foreign exchange movement of 10 per cent up and 10 per cent down against the U.S. dollar at the year end spot rates would be an increase or decrease of $0.4 million (2019 – $0.6 million).

C. LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost. The Company's main exposures to liquidity risk are with respect to its insurance and investment activities. The Company is exposed if proceeds from financial assets are not sufficient to fund obligations arising from its insurance contracts. The Company can be exposed to daily calls on its available investment assets, principally to settle insurance claims.

Exposures in relation to insurance activities are as follows:

- large catastrophic events, or multiple medium-sized events in quick succession, resulting in a requirement to pay a large value of claims within a relatively short time frame;
- failure of insureds or cedants to meet their contractual obligations with respect to the payment of premiums in a timely manner; and
- failure of reinsurers to meet their contractual obligations with respect to the payment of claims in a timely manner.

Exposures in relation to investment activities are as follows:

- adverse market movements and/or a duration mismatch to obligations, resulting in investments being disposed of at a significant realised loss; and
- an inability to liquidate investments due to market conditions.

The maturity dates of the Company's fixed maturity portfolio are as follows:

As at 31 December 2020	Core $m	Surplus $m	Total $m
Less than one year	**38.6**	**0.5**	**39.1**
Between one and two years	**41.5**	**1.6**	**43.1**
Between two and three years	**46.0**	**4.4**	**50.4**
Between three and four years	**16.8**	**1.4**	**18.2**
Between four and five years	**24.7**	**3.3**	**28.0**
Over five years	**3.9**	**2.4**	**6.3**
Asset backed and mortgage backed securities	**6.5**	**0.9**	**7.4**
Total fixed maturity securities	**178.0**	**14.5**	**192.5**

As at 31 December 2019	Core $m	Surplus $m	Total $m
Less than one year	58.1	1.6	59.7
Between one and two years	31.9	0.7	32.6
Between two and three years	20.7	2.7	23.4
Between three and four years	28.4	3.2	31.6
Between four and five years	15.6	0.8	16.4
Over five years	11.0	3.2	14.2
Asset backed and mortgage backed securities	9.7	1.2	10.9
Total fixed maturity securities	175.4	13.4	188.8

The maturity profile of the financial liabilities of the Company is as follows:

	Years until liability becomes due – undiscounted values					
As at 31 December 2020	Balance sheet $m	Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	**292.9**	**132.4**	**103.3**	**34.2**	**23.0**	**292.9**
Insurance contracts – other payables	**9.6**	**7.6**	**2.0**	**—**	**—**	**9.6**
Amounts payable to reinsurers	**80.6**	**80.6**	**—**	**—**	**—**	**80.6**
Corporation tax payable	**5.1**	**5.1**	**—**	**—**	**—**	**5.1**
Other payables	**15.8**	**15.8**	**—**	**—**	**—**	**15.8**
Total	**404.0**	**241.5**	**105.3**	**34.2**	**23.0**	**404.0**

As at 31 December 2019	Balance sheet $m	Years until liability becomes due – undiscounted values Less than one $m	One to three $m	Three to five $m	Over five $m	Total $m
Losses and loss adjustment expenses	234.3	99.3	86.9	29.1	19.0	234.3
Insurance contracts – other payables	14.4	14.3	0.1	—	—	14.4
Amounts payable to reinsurers	69.8	69.8	—	—	—	69.8
Corporation tax payable	6.9	6.9	—	—	—	6.9
Other payables	8.0	8.0	—	—	—	8.0
Total	333.4	198.3	87.0	29.1	19.0	333.4

While the estimation of the ultimate liability for losses and loss adjustment expenses is complex and incorporates a significant amount of judgement, the timing of payment of losses and loss adjustment expenses is also uncertain and cannot be predicted as simply as for other financial liabilities. Actuarial and statistical techniques, past experience and management's judgement have been used to determine a likely settlement pattern.

As at 31 December 2020 cash and cash equivalents were $40.4 million (31 December 2019 – $16.7 million). The Company manages its liquidity risks via its investment strategy to hold high quality, highly liquid, securities sufficient to meet its insurance liabilities and other near term liquidity requirements. The creation of the core portfolio with its subset of guidelines aims to ensure funds are readily available to meet potential insurance liabilities in an extreme event plus other near term liquidity requirements.

In addition, the Company has established asset allocation and maturity parameters within the investment guidelines such that the majority of the investments are in high quality assets which could be converted into cash promptly and at minimal expense. The Company monitors market changes and outlooks and re-allocates assets as deemed necessary.

The Company has modelled a series of COVID-19 pandemic stress tests and assessed the potential impact on future cash flows and liquidity. As at 31 December 2020, the Company considers that it has more than adequate liquidity to pay its obligations as they fall due.

D. CREDIT RISK

Credit risk is the risk that a counterparty may fail to pay, or repay, a debt or obligation. The Company is exposed to credit risk on its fixed maturity investment portfolio and derivative instruments, its inwards premiums receivable from insureds and cedants, and on any amounts recoverable from reinsurers. Given the dislocation in the market, the COVID-19 pandemic may adversely impact on our ability to collect amounts due to the Company.

Credit risk on the fixed maturity portfolio is mitigated through the Company's policy to invest in instruments of high credit quality issuers and to limit the amounts of credit exposure with respect to particular ratings categories and any one issuer. Securities rated below an S&P or equivalent rating BBB- / Baa3 may comprise no more than 10% of portfolio value, with the exception of U.S. government and agency securities. The Company is therefore not exposed to any significant credit concentration risk on its investment portfolio, except for fixed maturity securities issued by the U.S. government and government agencies.

Credit risk on inwards premiums receivable from insureds and cedants is managed by conducting business with reputable broking organisations, with whom the Company has established relationships, and by rigorous cash collection procedures. The Company also has a broker approval process in place. Credit risk from reinsurance recoverables is primarily managed by review and approval of reinsurer security by the Group's Reinsurance Security Committee.

The table below presents an analysis of the Company's major exposures to counter-party credit risk, based on their rating. The table includes amounts due from policyholders and unsettled investment trades. The quality of these receivables is not graded, but based on management's historical experience there is limited default risk associated with these amounts.

As at 31 December 2020	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	**28.9**	**—**	**—**
AA+, AA, AA-	**72.3**	**—**	**—**
A+, A, A-	**73.1**	**19.6**	**240.1**
BBB+, BBB, BBB-	**58.2**	**—**	**0.1**
Other	**0.4**	**131.4**	**7.8**
Total	**232.9**	**151.0**	**248.0**

As at 31 December 2019	Cash and fixed maturity securities $m	Inwards premiums receivable and other receivables $m	Reinsurance recoveries $m
AAA	48.2	—	—
AA+, AA, AA-	45.4	—	—
A+, A, A-	64.5	10.9	191.9
BBB+, BBB, BBB-	47.3	—	—
Other	0.1	151.0	7.6
Total	205.5	161.9	199.5

Reinsurance recoveries above include $185.3 million (2019 - $146.4 million) receivable from LICL which was rated A (excellent) by A.M. Best at 31 December 2020.

Under the terms of the whole account quota share agreement, LICL provides security to the Company in the form of a trust fund, consisting of cash and cash equivalents and fixed maturity securities. At 31 December 2020, an amount of $205.3 million (2019 - $203.3 million) was held in trust by LICL in favour of the Company.

The following table shows inwards premiums receivable that are past due but not impaired:

	2020 $m	2019 $m
Less than 90 days past due	**11.9**	7.9
Between 91 and 180 days past due	**7.8**	4.6
Over 180 days past due	**1.4**	2.2
Total	**21.1**	14.7

As at 31 December 2020 there has not been a change in our counterparty credit risk exposure, however, it is an area we continue to monitor given the ongoing COVID-19 pandemic. Provisions of $5.3 million (2019 – $3.9 million) have been made for impaired or irrecoverable balances and $1.4 million (2019 – $1.1 million) was charged to the statement of comprehensive income in respect of bad debts. No provisions have been made against balances recoverable from reinsurers.

E. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. The Company has identified and evaluated its key operational risks and these are incorporated in the risk registers and modelled directly within the capital model. The Company has also established, and monitors compliance with, internal operational risk tolerances. The RRC reviews operational risk at least on an annual basis and operational risk is covered in the CRO's quarterly ORSA reporting to the Board of Directors.

In order to manage operational risks, the Company has implemented a robust governance framework. Policies and procedures are documented and identify the key risks and controls within processes. The Company's internal audit function provides independent feedback with regard to the accuracy and completeness of key risks and controls, and independently verifies the effective operation of these through substantive testing. All higher risk areas are subject to an annual audit, while compliance with tax operating guidelines is reviewed quarterly. Frequency of consideration of audit for all other areas varies from quarterly at the most frequent to a minimum of once every three years, on a rotational basis.

The COVID-19 pandemic has challenged the robustness of the Company's operational risk management framework. We are pleased with the Company's operational resilience and the business continuity arrangements that have been demonstrated in the face of the COVID-19 pandemic. The majority of the LISL employees providing services to the Company have been working from home since March 2020 with no noticeable adverse impact on the Company's operating effectiveness. The Company recognises that it may be exposed to an increased level of operational cyber risk as a result of all LISL employees working from home. The risk is being managed through enhanced monitoring of network activity, targeted staff training, a quarterly risk and control affirmation process, annual testing of business continuity plans and disaster recovery plans and development of a cyber security incident response plan.

F. STRATEGIC RISK

The Company has identified several strategic risks. These include:

- the risks that either the poor execution of the business plan or an inappropriate business plan in itself results in a strategy that fails to adequately reflect the trading environment, resulting in an inability to optimise performance, including reputational risk;
- the risks of the failure to maintain adequate capital, accessing capital at an inflated cost or the inability to access capital. This includes unanticipated changes in vendor, regulatory and/or rating agency models that could result in an increase in capital requirements or a change in the type of capital required; and
- the risks of succession planning, staff retention and key man risks.

I. BUSINESS PLAN RISK

The Company addresses the risks associated with the planning and execution of the business plan through a combination of the following:

- an iterative annual forward-looking business planning process with cross departmental involvement;
- evaluation of, and approval of the annual business plan by the Board of Directors;
- regular monitoring of actual versus planned results;
- responding to current events such as the COVID-19 pandemic and the impact on the business; and
- periodic review and re-forecasting as market conditions change.

II. CAPITAL MANAGEMENT RISK

The total capital of the Company as at 31 December 2020 is $179.3 million (31 December 2019 - $179.4 million). The Company's capital requirements vary with the insurance cycle.

Risks associated with the effectiveness of the Company's capital management, are mitigated as follows:

- regular monitoring of current and prospective regulatory and rating agency capital requirements;
- oversight of capital requirements by the Board of Directors;
- ability to purchase sufficient, cost effective reinsurance; and
- maintaining contact with vendors, regulators and rating agencies in order to stay abreast of upcoming developments.

The Company reviews the level and composition of capital on an ongoing basis with a view to:

- maintaining sufficient capital for underwriting opportunities and to meet obligations to policyholders;
- maximising the risk-adjusted return to shareholders within predetermined risk tolerances;
- maintaining adequate financial strength ratings; and
- meeting internal, rating agency and regulatory capital requirements.

Internal methods have been developed to review the profitability of classes of business and their estimated capital requirements, and the capital requirements of the combination of a wide range of other risk categories. Management increasingly uses these approaches in decision making. The Company also conducts capital requirement assessments under internal measures and local regulatory requirements.

III. RETENTION RISK

Risks associated with succession planning, staff retention and key man risks are mitigated through a combination of resource planning processes and controls, including:

- the identification of key personnel with appropriate succession plans;
- the identification of key team profit generators and function holders with targeted retention packages;
- documented recruitment procedures, position descriptions and employment contracts; and
- resource monitoring and the provision of appropriate compensation, and training schemes.

3. SEGMENTAL REPORTING

Management and the Board of Directors review the Company's business primarily by its four principal classes: Property, Energy, Marine and Aviation. These classes are therefore deemed to be the Company's operating segments for the purposes of segmental reporting. Further sub-classes of business are underwritten within each operating segment. The nature of these individual sub-classes is discussed further in the risk disclosures section in note 2. Operating segment performance is measured by the net underwriting profit or loss and the combined ratio.

All amounts reported are transactions with external parties with the exception of the outwards reinsurance amounts, which include related party transactions as detailed in note 15.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2020	Property $m	Energy $m	Marine $m	Aviation $m	Total $m
Gross premiums written by geographic area					
Worldwide- multi-territory	4.7	68.3	35.7	55.7	164.4
Europe	12.0	3.9	—	—	15.9
U.S. and Canada	22.5	12.1	—	—	34.6
Rest of world	16.1	12.0	—	—	28.1
Total	55.3	96.3	35.7	55.7	243.0
Outwards reinsurance premiums	(50.1)	(84.6)	(30.3)	(51.4)	(216.4)
Change in unearned premiums	5.8	0.2	(5.0)	(2.5)	(1.5)
Change in unearned premiums ceded	(6.5)	1.5	2.3	2.0	(0.7)
Net premiums earned	4.5	13.4	2.7	3.8	24.4
Insurance losses and loss adjustment expenses	(28.5)	(60.3)	(12.2)	(29.9)	(130.9)
Insurance losses recoverable	24.6	50.6	9.7	27.2	112.1
Insurance acquisition expenses	(10.9)	(20.7)	(9.2)	(11.7)	(52.5)
Insurance acquisition expenses ceded and overrider commission	15.1	30.7	10.1	15.7	71.6
Net underwriting profit	4.8	13.7	1.1	5.1	24.7
Net unallocated income and expenses					(28.2)
Loss before tax					(3.5)
Net loss ratio	86.7%	72.4%	92.6%	71.1%	77.0%
Net acquisition cost ratio[1]	37.8%	30.6%	85.2%	10.5%	38.1%
Expense ratio[1]	–	–	–	–	16.0%
Combined ratio	124.5%	103.0%	177.8%	81.6%	131.1%

(1) The acquisition cost ratio excludes override commission received which is included in the expense ratio.

REVENUE AND EXPENSE BY OPERATING SEGMENT

For the year ended 31 December 2019	Property $m	Energy $m	Marine $m	Aviation $m	Total $m
Gross premiums written by geographic area					
Worldwide- multi-territory	9.1	75.8	28.5	52.1	165.5
Europe	15.0	2.5	—	—	17.5
U.S. and Canada	8.3	9.1	—	—	17.4
Rest of world	22.0	6.2	—	—	28.2
Total	54.4	93.6	28.5	52.1	228.6
Outwards reinsurance premiums	(49.1)	(80.7)	(24.6)	(46.6)	(201.0)
Change in unearned premiums	4.3	4.6	2.5	(13.3)	(1.9)
Change in unearned premiums ceded	(2.5)	(3.4)	(0.8)	12.2	5.5
Net premiums earned	7.1	14.1	5.6	4.4	31.2
Insurance losses and loss adjustment expenses	(8.5)	(18.1)	0.4	(17.9)	(44.1)
Insurance losses recoverable	9.2	15.4	(1.2)	16.2	39.6
Insurance acquisition expenses	(9.2)	(22.7)	(7.7)	(7.9)	(47.5)
Insurance acquisition expenses ceded and overrider commission	12.4	24.4	8.2	9.7	54.7
Net underwriting profit	11.0	13.1	5.3	4.5	33.9
Net unallocated income and expenses					(24.0)
Profit before tax					9.9
Net loss ratio	(9.9) %	19.1 %	14.3 %	38.6 %	14.4 %
Net acquisition cost ratio[1]	14.1 %	32.6 %	48.2 %	25.0 %	28.7 %
Expense ratio[1]	–	–	–	–	42.4 %
Combined ratio	4.2 %	51.7 %	62.5 %	63.6 %	85.5 %

(1) The acquisition cost ratio excludes override commission received which is included in the expense ratio.

4. INVESTMENT RETURN

The total investment return for the Company is as follows:

For the year ended 31 December 2020	**Net investment income and net other investment income (losses) $m**	**Net realised (losses) gains and impairments $m**	**Net change in unrealised gains/losses on AFS[1] $m**	**Total investment return excluding foreign exchange $m**
Fixed maturity securities – AFS	**4.0**	**0.3**	**2.8**	**7.1**
Total investment return	**4.0**	**0.3**	**2.8**	**7.1**

(1) Applying IFRS 9 net change in unrealised gains /losses on AFS will be classified within net investment income and net other investment income.

For the year ended 31 December 2019	Net investment income and net other investment income (losses) $m	Net realised (losses) gains and impairments $m	Net change in unrealised gains/losses on AFS[1] $m	Total investment return excluding foreign exchange $m
Fixed maturity securities – AFS	5.3	0.2	3.6	9.1
Total investment return	5.3	0.2	3.6	9.1

(1) Applying IFRS 9 net change in unrealised gains /losses on AFS will be classified within net investment income and net other investment income.

There were impairment losses on fixed maturity securities held by the Company of $nil (2019 – $nil).

Included in investment income is $0.3 million (2019 – $0.3 million) of investment management and custodian fees.

5. NET INSURANCE ACQUISITION EXPENSES

	2020 $m	2019 $m
Insurance acquisition expenses	**54.4**	48.2
Changes in deferred insurance acquisition expenses	**(1.9)**	(0.7)
Insurance acquisition expenses ceded and overrider commission	**(65.4)**	(55.8)
Changes in deferred insurance acquisition expenses ceded	**(6.2)**	1.1
Total net insurance acquisition expenses	**(19.1)**	(7.2)

6. OTHER OPERATING EXPENSES

Other operating expenses are stated after charging the following amounts:

	2020 $m	2019 $m
Auditors' remuneration		
– audit fees	**0.4**	0.3
– audit related services	**0.1**	0.1
– non-audit services	**—**	–
Total	**0.5**	0.4

Fees paid to the Company's auditors for other services are approved by the Group's Audit Committee.

7. TAX

Tax (charge) credit in the Statement Of Comprehensive Income	2020 $m	2019 $m
Group relief receivable (payable)	**0.3**	(4.6)
Adjustments in respect of prior period corporation tax	**—**	0.2
Deferred tax credit for the period	**0.4**	0.3
Change in tax rates	**(0.1)**	—
Total tax credit (charge)	**0.6**	(4.1)

Tax reconciliation	2020 $m	2019 $m
Profit (loss) before tax	**(3.5)**	9.9
UK corporation tax at 19.0% (2018: 19.0%)	**0.7**	(1.9)
Adjustments in respect of prior period	**—**	0.2
Other expense permanent differences	**—**	(2.4)
Change in tax rates	**(0.1)**	—
Total tax credit (charge)	**0.6**	(4.1)

Refer to note 9 for details of the tax expense related to the net change in unrealised gains and losses on investments that is included in accumulated other comprehensive income within shareholder's equity.

Taxation balances in the Statement Of Financial Position	2020 $m	2019 $m
Corporation tax payable	**(0.4)**	(3.8)
Group relief payable to C98	**(1.8)**	—
Group relief payable to LISL	**(0.1)**	(0.4)
Group relief payable to CCHL	**(0.2)**	(0.2)
Group relief payable to LHL	**(2.6)**	(2.5)
Total	**(5.1)**	(6.9)

8. CASH AND CASH EQUIVALENTS

	2020 $m	2019 $m
Cash at bank and in hand	**24.2**	9.6
Cash equivalents	**16.2**	7.1
Total cash and cash equivalents	**40.4**	16.7

Cash equivalents have an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

9. INVESTMENTS

As at 31 December 2020	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value[1] $m
Fixed maturity securities – AFS				
– Short term investments	**8.0**	**—**	**—**	**8.0**
– U.S. treasuries	**57.0**	**0.6**	**—**	**57.6**
– Other government bonds	**3.1**	**—**	**—**	**3.1**
– U.S. municipal bonds	**2.0**	**0.2**	**—**	**2.2**
– Asset backed securities	**0.9**	**—**	**—**	**0.9**
– U.S. government agency mortgage backed securities	**6.2**	**0.3**	**—**	**6.5**
– Non-agency mortgage backed securities	**—**	**—**	**—**	**—**
– Corporate bonds	**108.8**	**5.4**	**—**	**114.2**
Total investments	**186.0**	**6.5**	**—**	**192.5**

(1) Applying IFRS 9 all investments held above will be classified as at FVTPL, with no resulting changes in the estimated fair value.

As at 31 December 2019	Cost or amortised cost $m	Unrealised gains $m	Unrealised losses $m	Estimated fair value[1] $m
Fixed maturity securities – AFS				
– Short term investments	28.3	—	—	28.3
– U.S. treasuries	28.0	0.2	—	28.2
– Other government bonds	1.2	—	—	1.2
– U.S. municipal bonds	2.1	0.1	—	2.2
– Asset backed securities	2.0	—	—	2.0
– U.S. government agency mortgage backed securities	8.7	0.1	—	8.8
– Non-agency mortgage backed securities	0.1	—	—	0.1
– Corporate bonds	115.4	2.6	—	118.0
Total investments	185.8	3.0	—	188.8

(1) Applying IFRS 9 all investments held above will be classified as at FVTPL, with no resulting changes in the estimated fair value.

Accumulated other comprehensive loss is in relation to the fixed maturity investment portfolio and is as follows:

	2020 $m	2019 $m
Gross unrealised gains	**6.5**	3.0
Gross unrealised losses	**—**	—
Tax provision	**(1.2)**	(0.5)
Accumulated other comprehensive income	**5.3**	2.5

Fixed income maturities are presented in the risk disclosures section in note 2.

The Company determines the estimated fair value of each individual security utilising the highest level inputs available. Prices for the Company's investment portfolio are provided by a third-party investment accounting firm whose pricing processes and the controls thereon are subject to an annual audit on both the operation and the effectiveness of those controls. The audit reports are available to clients of the firm and the report is reviewed annually by management. In accordance with their pricing policy, various recognised reputable pricing sources are used including broker-dealers and pricing vendors. The pricing sources use bid prices where available, otherwise indicative prices are quoted based on observable market trade data. The prices provided are compared to the investment managers' pricing. The Company has not made any adjustments to any pricing provided by independent pricing services or its third-party investment managers for either year ending 31 December.

The fair value of securities in the Company's investment portfolio is estimated using the following techniques:

LEVEL (I)

Level (i) investments are securities with quoted prices in active markets. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

LEVEL (II)

Level (ii) investments are securities with quoted prices in active markets for similar assets or liabilities or securities valued using other valuation techniques for which all significant inputs are based on observable market data. Instruments included in Level (ii) are valued via independent external sources using modelled or other valuation methods. Such methods are typically industry accepted standard and include:

- broker-dealer quotes;
- pricing models or matrix pricing;
- present values;
- future cash flows;
- yield curves;
- interest rates;
- prepayment speeds; and
- default rates.

Other similar quoted instruments or market transactions may be used.

The Company determines securities classified as Level (ii) to include short-term and fixed maturity investments such as:

- Non-U.S. government bonds;
- U.S. municipal bonds;
- U.S. government agency bonds;
- Asset backed securities;
- U.S. government agency mortgage backed securities;
- Non-agency mortgage backed securities;
- Non-agency commercial mortgage backed securities; and
- Corporate bonds.

LEVEL (III)

Level (iii) investments are securities for which valuation techniques are not based on observable market data. During the years ended 31 December 2020 and 31 December 2019, the Company did not hold any level (iii) investments.

During 2019, the Company engaged a third-party service provider to assess the levelling of its investment portfolio. This resulted in a refinement in our methodology with securities from the same asset class being included in multiple levelling categories.

The Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing the categorisation at the end of each reporting period. Transfers between Level (i) to (ii) securities amounted to $18.3 million(2019- $nil) and transfers from Level (ii) to (i) securities amounted to $14.0 million during the year ended 31 December 2020 (2019 - $30.9 million).

The fair value hierarchy of the Company's investment holdings is as follows:

As at 31 December 2020	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities				
– Short term investments	**8.0**	**—**	**—**	**8.0**
– U.S. treasuries	**57.6**	**—**	**—**	**57.6**
– Other government bonds	**—**	**3.1**	**—**	**3.1**
– U.S. municipal bonds	**—**	**2.2**	**—**	**2.2**
– Asset backed securities	**—**	**0.9**	**—**	**0.9**
– U.S. government agency mortgage backed securities	**—**	**6.5**	**—**	**6.5**
– Corporate bonds	**47.3**	**66.9**	**—**	**114.2**
Total fixed maturity securities	**112.9**	**79.6**	**—**	**192.5**

As at 31 December 2019	Level (i) $m	Level (ii) $m	Level (iii) $m	Total $m
Fixed maturity securities				
– Short term investments	28.3	—	—	28.3
– U.S. treasuries	28.2	—	—	28.2
– Other government bonds	—	1.2	—	1.2
– U.S. municipal bonds	—	2.2	—	2.2
– Asset backed securities	—	2.0	—	2.0
– U.S. government agency mortgage backed securities	—	8.8	—	8.8
– Non-agency mortgage backed securities	—	0.1	—	0.1
– Corporate bonds	50.0	68.0	—	118.0
Total fixed maturity securities	106.5	82.3	—	188.8

There were no level (iii) investments as at 31 December 2020 or 31 December 2019, therefore a reconciliation of movements within that level has not been presented.

10. INTERESTS IN STRUCTURED ENTITIES

As part of its investment activities, the Company invests in unconsolidated structured entities. As at 31 December 2020, the Company's total interest in unconsolidated structured entities was $7.4 million (31 December 2019 – $10.9 million). The Company does not sponsor any of the unconsolidated structured entities.

A summary of the Company's interest in unconsolidated structured entities is as follows:

As at 31 December	2020 $m	2019 $m
Fixed maturity securities		
– Asset backed securities	**0.9**	2.0
– U.S. government agency mortgage backed securities	**6.5**	8.8
– Non-agency mortgage backed securities	**—**	0.1
Total	**7.4**	10.9

Whilst individual securities may differ in structure, the principles of the instruments are broadly the same and it is appropriate to aggregate the investments into the categories above.

These structured entities are created to meet specific investment needs of borrowers and investors which cannot be met from standard financial instruments available in capital markets. As such, they provide liquidity to the borrowers in these markets and provide investors with an opportunity to diversify away from standard fixed maturity securities.

The risk that the Company faces in respect of the investments in structured entities is similar to the risk it faces in respect of other financial investments held on the balance sheet in that fair value is determined by market supply and demand. This is in turn driven by investor evaluation of the credit risk of the structure and changes in term structure of interest rates which change investors' expectation of the cash flows associated with the instrument and, therefore, its value in the market. Risk management disclosure for these financial instruments and other investments is provided on pages 31 to 34.

The maximum exposure to loss in respect of these structured entities would be the carrying value of the instruments that the Company holds as at 31 December 2020 and 31 December 2019. Generally, default rates would have to increase substantially from their current level before the Company would suffer a loss and this assessment is made prior to investing and continually through the holding period for the security. The Company has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

11. LOSSES AND LOSS ADJUSTMENT EXPENSES

	Losses and loss adjustment expenses $m	Reinsurance recoveries $m	Net losses and loss adjustment expenses $m
As at December 2018	289.3	(252.0)	37.3
Net incurred losses for:			
Prior years	(50.4)	43.0	(7.4)
Current year	94.5	(82.6)	11.9
Exchange adjustments	1.4	(1.0)	0.4
Incurred losses and loss adjustment expenses	45.5	(40.6)	4.9
Net paid losses for:			
Prior years	96.4	(89.4)	7.0
Current year	4.1	(3.7)	0.4
Paid losses and loss adjustment expenses	100.5	(93.1)	7.4
As at 31 December 2019	234.3	(199.5)	34.8
Net incurred losses for:			
Prior years	**(19.4)**	**15.2**	**(4.2)**
Current year	**150.3**	**(127.3)**	**23.0**
Exchange adjustments	**3.3**	**(2.7)**	**0.6**
Incurred losses and loss adjustment expenses	**134.2**	**(114.8)**	**19.4**
Net paid losses for:			
Prior years	**54.7**	**(47.4)**	**7.3**
Current year	**20.9**	**(18.9)**	**2.0**
Paid losses and loss adjustment expenses	**75.6**	**(66.3)**	**9.3**
As at 31 December 2020	**292.9**	**(248.0)**	**44.9**

Further information on the calculation of loss reserves and the risks associated with them is provided in the risk disclosures section from note 2. The risks associated with general insurance contracts are complex and do not readily lend themselves to meaningful sensitivity analysis. The impact of an unreported event could lead to a significant increase in the Company's loss reserves. The Company believes that the loss reserves established are adequate, however a 20.0% increase in estimated losses would lead to a $58.6 million (2019 – $46.9 million) increase in gross loss reserves and a $9.0 million (31 December 2019 – $7.0 million) increase in net loss reserves.. There was no change to the Company's reserving methodology during the year.

The split of net losses and loss adjustment expenses between notified outstanding losses, ACRs assessed by management and IBNR is shown below:

	2020		2019	
As at 31 December	**$m**	**%**	$m	%
Outstanding losses	**8.3**	**18.5**	8.4	24.1
Additional case reserves	**25.1**	**55.9**	15.7	45.1
Losses incurred but not reported	**11.5**	**25.6**	10.7	30.8
Total	**44.9**	**100.0**	34.8	100.0

The Company's reserve for unpaid losses and loss adjustment expenses as at 31 December 2020 and 2019 had an estimated duration of approximately two years.

CLAIMS DEVELOPMENT

The development of insurance liabilities is indicative of the Company's ability to estimate the ultimate value of its insurance liabilities. The Company began writing insurance and reinsurance business in October 2006.

Accident year	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Gross losses												
Estimate of ultimate liability[1]												
At end of accident year	493.8	236.4	168.9	137.6	118.4	137.0	141.4	89.7	126.7	94.2	152.0	
One year later	391.5	184.0	144.4	126.8	93.6	110.6	149.3	93.8	120.8	76.7		
Two years later	363.2	189.5	140.5	104.2	83.2	102.6	130.3	86.2	104.0			
Three years later	351.6	206.3	132.8	108.7	78.6	99.0	104.6	102.6				
Four years later	345.3	222.2	122.7	106.5	76.3	93.7	103.1					
Five years later	347.6	222.1	121.7	106.2	77.5	93.1						
Six years later	367.2	222.1	121.7	106.2	77.5							
Seven years later	368.1	223.0	117.2	106.5								
Eight years later	343.8	220.8	117.2									
Nine years later	345.3	220.8										
Ten years later	345.8											
Current estimate of cumulative liability	**4.9**	**0.9**	**0.9**	**7.0**	**4.6**	**5.6**	**11.9**	**43.8**	**21.7**	**60.5**	**131.1**	**292.9**
Payments made	**340.9**	**219.9**	**116.3**	**99.5**	**72.9**	**87.5**	**91.2**	**58.8**	**82.3**	**16.2**	**20.9**	**1,206.4**
Total gross liability	**345.8**	**220.8**	**117.2**	**106.5**	**77.5**	**93.1**	**103.1**	**102.6**	**104.0**	**76.7**	**152.0**	**1,499.3**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

Accident year	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Reinsurance												
Estimate of ultimate recovery[1]												
At end of accident year	420.1	205.3	146.1	113.9	98.1	114.6	126.4	72.7	109.7	82.3	128.7	
One year later	333.5	158.4	127.3	105.2	77.6	93.3	137.2	79.0	108.8	67.1		
Two years later	309.2	163.1	123.1	86.5	68.7	86.4	122.0	73.9	95.0			
Three years later	299.5	179.1	116.8	90.2	65.2	83.4	97.1	89.0				
Four years later	294.3	195.0	107.8	88.4	63.4	79.1	95.7					
Five years later	296.2	194.9	107.7	88.1	64.5	78.5						
Six years later	312.3	194.9	107.6	88.1	64.4							
Seven years later	313.1	195.8	103.8	88.4								
Eight years later	293.0	194.1	103.8									
Nine years later	295.0	194.0										
Ten years later	295.5											
Current estimate of cumulative recovery	**4.1**	**0.6**	**0.8**	**5.8**	**3.8**	**4.6**	**9.9**	**37.1**	**18.2**	**53.3**	**109.8**	**248.0**
Payments received	**291.4**	**193.4**	**103.0**	**82.6**	**60.6**	**73.9**	**85.8**	**51.9**	**76.8**	**13.8**	**18.9**	**1,052.1**
Total reinsurance recoverable	**295.5**	**194.0**	**103.8**	**88.4**	**64.4**	**78.5**	**95.7**	**89.0**	**95.0**	**67.1**	**128.7**	**1,300.1**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

Accident year	2010 and prior $m	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	Total $m
Net losses												
Estimate of ultimate liability[1]												
At end of accident year	73.7	31.1	22.8	23.7	20.3	22.4	15.0	17.0	17.0	11.9	23.3	
One year later	58.0	25.6	17.1	21.6	16.0	17.3	12.1	14.8	12.0	9.6		
Two years later	54.0	26.4	17.4	17.7	14.5	16.2	8.3	12.3	9.0			
Three years later	52.1	27.2	16.0	18.5	13.4	15.6	7.5	13.6				
Four years later	51.0	27.2	14.9	18.1	12.9	14.6	7.4					
Five years later	51.4	27.2	14.0	18.1	13.0	14.6						
Six years later	54.9	27.2	14.1	18.1	13.1							
Seven years later	55.0	27.2	13.4	18.1								
Eight years later	50.8	26.7	13.4									
Nine years later	50.3	26.8										
Ten years later	50.3											
Current estimate of cumulative liability	**0.8**	**0.3**	**0.1**	**1.2**	**0.8**	**1.0**	**2.0**	**6.7**	**3.5**	**7.2**	**21.3**	**44.9**
Payments made	**49.5**	**26.5**	**13.3**	**16.9**	**12.3**	**13.6**	**5.4**	**6.9**	**5.5**	**2.4**	**2.0**	**154.3**
Total net liability	**50.3**	**26.8**	**13.4**	**18.1**	**13.1**	**14.6**	**7.4**	**13.6**	**9.0**	**9.6**	**23.3**	**199.2**

(1) Adjusted for revaluation of foreign currencies at the exchange rate as at 31 December 2020.

COVID-19 is an unprecedented event for the insurance industry that is still continuing, and the effects of COVID-19 as a loss event to the insurance and reinsurance markets remain both ongoing and uncertain. Reserving for the impacts of the COVID-19 pandemic is exceptionally difficult, both in estimating the direct impacts of the pandemic itself and also in allowing for additional reserves related to the secondary impacts of lockdowns on the costs of settling claims across all lines of business. Given the uncertainty noted above and the continuation of the impacts of the pandemic into 2021 our final COVID-19-related losses may be materially different from those booked to date.

The inherent uncertainty in reserving gives rise to favourable or adverse development on the established reserves. The total favourable development on net losses and loss adjustment expenses, excluding the impact of foreign exchange revaluations, was as follows:

	2020		2019	
	Gross $m	Net $m	Gross $m	Net $m
2010 accident year and prior	**(0.8)**	**—**	(1.8)	0.4
2011 accident year	**—**	**—**	2.2	0.4
2012 accident year	**—**	**—**	4.5	0.8
2013 accident year	**(0.2)**	**—**	—	—
2014 accident year	**(0.9)**	**(0.1)**	(0.2)	—
2015 accident year	**0.6**	**0.1**	5.4	0.9
2016 accident year	**1.5**	**0.1**	25.7	0.9
2017 accident year	**(15.9)**	**(1.2)**	7.9	2.5
2018 accident year	**17.0**	**3.0**	6.7	1.5
2019 accident year	**18.1**	**2.3**	—	—
Total favourable development	**19.4**	**4.2**	50.4	7.4

The gross unfavourable development of $15.9 million on the 2017 accident year during 2020 is largely related to a small number of risk losses in the property political risk and marine sub-classes of business, partially offset by releases in IBNR.

The favourable development on the 2017 accident year in 2019 was mainly related to an energy loss.

12. INSURANCE, REINSURANCE AND OTHER RECEIVABLES

	2020 $m	2019 $m
Inwards premiums receivable from insureds and cedants	**130.3**	147.1
Reinsurance assets		
- Reinsurance recoveries	**248.0**	199.5
- Other receivables	**19.5**	10.6
Other receivables	**1.2**	4.2
Accrued interest receivable	**1.1**	1.1
Total receivables	**400.1**	362.5

Other receivables consist primarily of unsettled investment trades and prepaid expenses. All receivables are considered current other than $12.6 million (31 December 2019 – $20.0 million) of inwards premiums receivable related to multi-year contracts. The carrying value approximates fair value due to the short-term nature of the receivables. There are no significant concentrations of credit risk within the Company's receivables.

13. DEFERRED TAX

As at 31 December	2020 $m	2019 $m
Deferred tax liability	**1.4**	1.0

The deferred tax liability relates mainly to timing differences on claims equalisation reserves and capital allowances and is classified as non-current.

The UK corporation tax rate as at 31 December 2020 was 19.0 per cent (effective from 1 April 2017). This rate has been reflected in the closing deferred tax position on the balance sheet.

The previously announced reduction in the rate of UK corporation tax from 19% to 17% with effect from 1st April 2020 was rescinded in the 2020 UK budget. This has resulted in recognition of deferred tax assets and liabilities at 19% at 31 December 2020 where lower rates were previously applied with a related tax charge of $0.1m

14. SHARE CAPITAL

Authorised ordinary shares of £1 each	Number	£m
As at 31 December 2019 and 2018	**200,000,000**	**200.0**

Allocated, called up and fully paid	Number	£m	$m
As at 31 December 2019 and 2018	**97,987,956**	**98.0**	**188.4**

During 2020, the Directors authorised the payment of an interim dividend of $nil (2019 - $nil).

15. RELATED PARTY DISCLOSURES

REMUNERATION OF DIRECTORS

The Company has no employees. All UK employees in the Lancashire Group are employed and remunerated by LISL. The emoluments of these employees are recharged as part of a management charge under a management service agreement.

	2020 $m	2019 $m
Directors' remuneration	**3.1**	4.6
Amounts receivable under long term incentive schemes	**1.1**	0.3
Company contributions to money purchase pension plans	**0.1**	0.1

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was $1,257,227 (2019: $1,158,961), and Company pension contributions of $7,045 (2019: $12,738) were made to a money purchase scheme on their behalf. During the year, the highest paid Director exercised RSS awards and received shares under a long term incentive scheme.

	Number of directors	
	2020	2019
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**5**	5
The number of directors who exercised RSS awards was	**2**	5
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	**—**	—

The interests of the directors in shares and restricted stock of LHL are as follows:

	shares		restricted stock	
For the year ended 31 December	**2020**	2019	**2020**	2019
John Cadman	**—**	—	**212,369**	228,843
Russell Worsley	**33,328**	33,351	**41,800**	30,200
James Flude (appointed 1 June 2020)	**452**	—	**66,300**	—
Michael Connor (resigned 5 March 2020)	**—**	9,729	**—**	28,107
Hayley Johnston (resigned 1 April 2020)	**—**	—	**—**	228,892
Steve Yeo	**36,312**	25,546	**48,300**	48,300

The interests of Samantha Hoe-Richardson are disclosed in the Annual Report and Accounts of LHL. None of the other non-executive directors have any interest in the shares and restricted stock of LHL.

TRANSACTIONS WITH AFFILIATES

Other operating expenses include the following amounts related to transactions with LICL, LISL and LMSCL under insurance service agreements.

Income statement	**2020 $m**	2019 $m
Service fee payable to LISL	**23.1**	21.8
Service fee payable to LICL	**0.6**	0.7
Service fee payable to LMSCL	**0.1**	0.1
Total	**23.8**	22.6

The Company has entered into a quota share treaty agreement with LICL. Under this agreement, the Company cedes a share of all its business written or assumed and receives an override commission. The following balances and transactions with LICL under the quota share treaty are included in the Company's financial statements:

Balance sheet	**2020 $m**	2019 $m
Assets		
Reinsurance assets		
– Unearned premiums on premiums ceded	**84.5**	85.4
– Reinsurance recoveries	**185.3**	146.4
Liabilities		
Amounts payable to reinsurers	**24.1**	27.9
Deferred acquisition costs ceded	**28.0**	34.1

Statement of comprehensive income	**2020 $m**	2019 $m
Outwards reinsurance premiums	**(117.8)**	(111.0)
Change in unearned premiums on premiums ceded	**(0.9)**	(5.6)
Insurance losses and loss adjustment expenses recoverable	**75.3**	13.8
Insurance acquisition expenses ceded and overrider commission	**62.1**	48.2

The Company has entered into an underwriting services agreement with LSL on behalf of Lancashire Syndicate 3010. Under the terms of this agreement, the Company receives an override commission. The override commission receivable in relation to 2020 was $0.9 million (2019 - $0.7 million).

The Company has entered into a quota share treaty agreement with LSL on behalf of Lancashire Syndicate 3010. Under this agreement, the Company assumes a share of certain business written or assumed and receives an override commission. The following balances and transactions with LSL on behalf of Syndicate 3010 under the quota share treaty are included in the Company's financial statements:

Balance sheet	2020 $m	2019 $m
Assets		
Insurance assets		
– Premium receivable	**2.9**	1.8
– Deferred acquisition costs	**0.7**	0.2
Liabilities		
– Outstanding loss reserve	**1.0**	0.8
– Unearned premium reserve	**1.7**	0.4

Statement of comprehensive income	2020 $m	2019 $m
Gross written premiums	**2.0**	2.9
Change in unearned premiums	**(1.3)**	(0.4)
Insurance losses and loss adjustment expenses	**(0.3)**	(0.8)
Insurance acquisition expenses	**(0.5)**	(1.3)

During 2017 the Company entered into a catastrophe excess of loss reinsurance agreement with LSL on behalf of Lancashire Syndicate 2010. The Company has recognised a total of $13.5m in relation to expected claims on the contract (2019- $14.3 million) including a release of $0.8m during 2020 (2019 - release of $3.6m).

CONTINGENT LIABILITY

The Company provides guarantees in respect of the obligations of LISL under three operating leases to rent office accommodation. These operating leases were assigned to a third party during 2014, but LISL retains liability for the payments in the event of the default of the third party and its guarantor. The directors believe the risk of the third party and its guarantor not meeting their obligations under the leases to be remote. The leases expire in 2021.

16. PARENT COMPANY AND ULTIMATE HOLDING COMPANY

The Company's immediate parent company is LIHL, a company registered in England. LHL, registered in Bermuda, owns 100 per cent of the issued share capital of LIHL as at 31 December 2020 and is the Company's ultimate holding company. The Company's parent and ultimate holding is Lancashire Holdings Limited, a company incorporated in Bermuda and whose registered office is Power House, 7 Par-la-Ville Road, Hamilton, HM 11, Bermuda.

The financial statements of LHL may be viewed on Lancashire Holdings Limited's website at www.lancashiregroup.com.

Acquisition cost ratio
Ratio, in percent, of the sum of expenses for acquisition costs to net earned premiums

ACR
Additional case reserves

Aggregate/Aggregation
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss

AFS
Available for sale

C98
Cathedral Capital (1998) Limited

CCHL
Cathedral Capital Holdings Limited

CCSL
Cathedral Capital Services Limited

CEO
Chief Executive Officer

Claim
Demand by an insured for indemnity under an insurance contract

Combined ratio
Ratio, in percent, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums

The Company
Lancashire Insurance Company (UK) Limited

CRO
Chief Risk Officer

Deferred acquisition costs
Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage and premium taxes) which are deferred and amortised over the term of the insurance contracts to which they relate

Duration
Duration is the weighted average maturity of a security's cash flows, where the present values of the cash flows serve as the weights. The effect of the convexity on the portfolio's response to changes in interest rates is also factored in to the calculation

EEA
European Economic Area

EIOPA
European Insurance and Occupational Pensions Authority

ERM
Enterprise Risk Management

ESG
Environmental, Social and Corporate Governance

Excess of loss (XoL)
Reinsurance or insurance that indemnifies the reinsured or insured against all or a specified portion of losses on an underlying insurance policy in excess of a specified amount

Expense ratio
Ratio, in percent, of the sum of expenses for administrative expenses to net earned premiums

EU
European Union

Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty

FCBVS
Fully converted book value per share

FCA
Financial Conduct Authority

FRC
Financial Reporting Council

FVTPL
Fair Value Through Profit and Loss

GMT
Greenwich Mean Time

Gross premiums written
Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries

The Group

LHL and its subsidiaries

Industry Loss Warranty (ILW)
A type of reinsurance or derivative contract through which one party will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses

International Accounting Standards (IAS)
Standards for the preparation and presentation of financial statements created by the International Accounting Standards Board (IASB)

Incurred by not reported (IBNR)
These are anticipated or likely claims that may result from insured events which have taken place, but for which no claims have yet been reported

IFRIC
International Financial Reporting Interpretations Committee

IFRS
International Financial Reporting Standards (as adopted by the European Union)

Internal audit charter
A formal written document that sets out the mission, scope, responsibilities, authority, professional standards and the relationship with the external auditors and regulatory bodies of the internal audit function with the Company and its subsidiaries

IUA
International Underwriting Association

Lancashire Foundation
The Lancashire Foundation is a charity registered in England and Wales

LHL
Lancashire Holdings Limited

LICL
Lancashire Insurance Company Limited

LIHL
Lancashire Insurance Holdings (UK) Limited

LIMSL
Lancashire Insurance Marketing Services Limited

LISL
Lancashire Insurance Services Limited

Lloyd's
The Society of Lloyd's

Lloyd's Brussels
Lloyd's Insurance Company SA, the insurer that Lloyd's has established in Brussels

LMSCL
Lancashire Management Services Canada Limited

Loss ratio
Ratio, in percent, of net insurance claims to net earned premiums

LSL
Lancashire Syndicates Limited

LUK
Lancashire Insurance Company (UK) Limited

MSCI
MSCI Incorporated

Net premiums written
Net premiums written is equal to gross premiums written less outward reinsurance premiums written

ORSA
Own Risk and Solvency Assessment

PRA
Prudential Regulation Authority

PRI
Principles for Responsible Investment

Return on Equity (RoE)
Ratio, in percent, calculated by dividing the consolidated profit after tax by the average total equity

Risk
May variously refer to: the possibility of some event occurring which causes injury or loss, the subject matter of an insurance or reinsurance contract or an insured peril

RRC
The Group's Risk and Return Committee

RSS
The Group's restricted share scheme operated by LHL

S&P Global Ratings (S&P)
S&P Global Ratings is a worldwide insurance rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations

TCFD
Task Force on Climate-related Financial Disclosures

Treaty
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class

Unearned premium
The portion of premium income that is attributable to periods after the balance sheet date is deferred and amortised to future accounting periods

UNEP
United Nations Environment Programme

U.S.
United States

U.S. GAAP
Accounting principles generally accepted in the United States

VaR
Value at Risk